



This is a digital copy of a book that was preserved for generations on library shelves before it was carefully scanned by Google as part of a project to make the world's books discoverable online.

It has survived long enough for the copyright to expire and the book to enter the public domain. A public domain book is one that was never subject to copyright or whose legal copyright term has expired. Whether a book is in the public domain may vary country to country. Public domain books are our gateways to the past, representing a wealth of history, culture and knowledge that's often difficult to discover.

Marks, notations and other marginalia present in the original volume will appear in this file - a reminder of this book's long journey from the publisher to a library and finally to you.

Usage guidelines

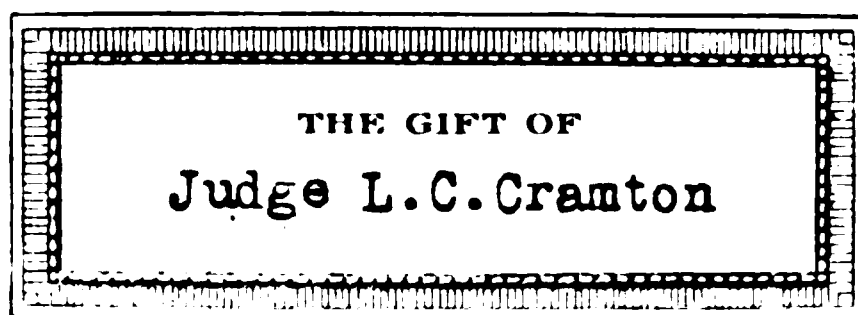
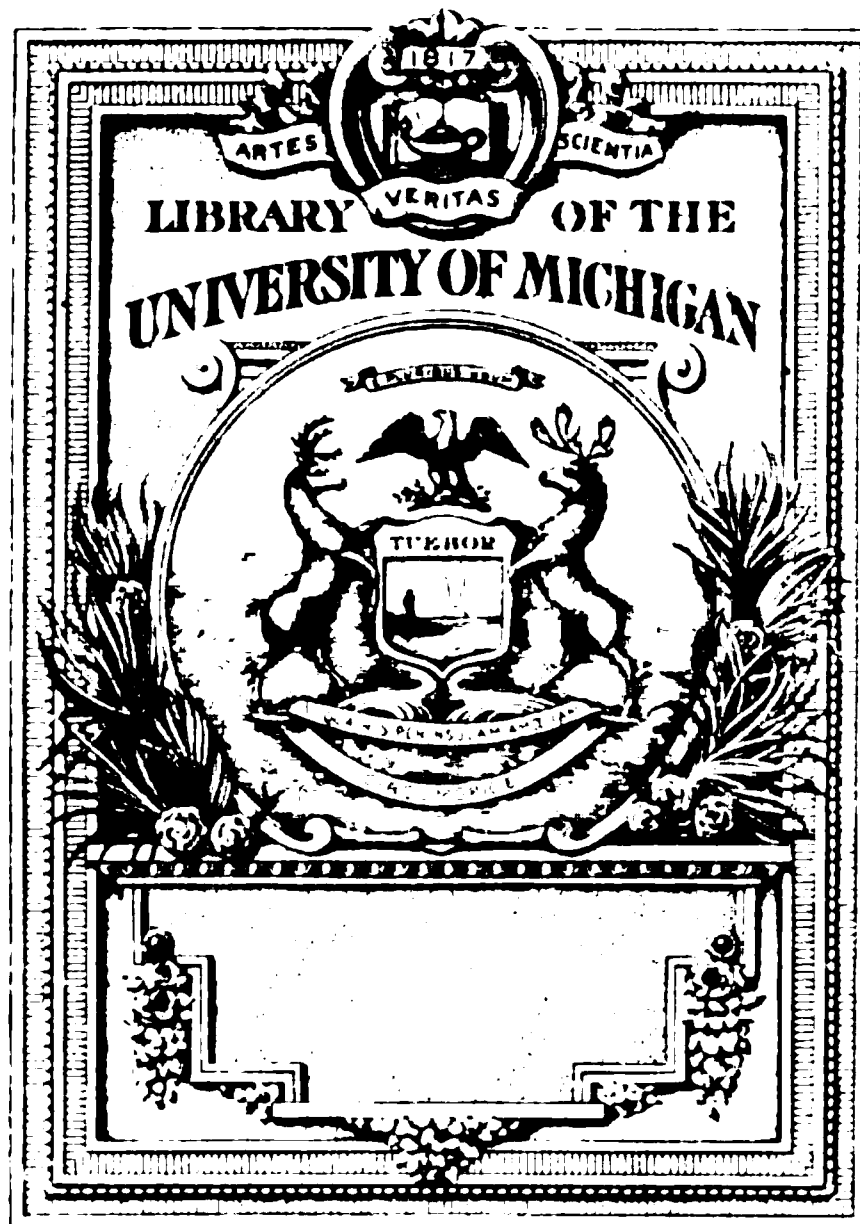
Google is proud to partner with libraries to digitize public domain materials and make them widely accessible. Public domain books belong to the public and we are merely their custodians. Nevertheless, this work is expensive, so in order to keep providing this resource, we have taken steps to prevent abuse by commercial parties, including placing technical restrictions on automated querying.

We also ask that you:

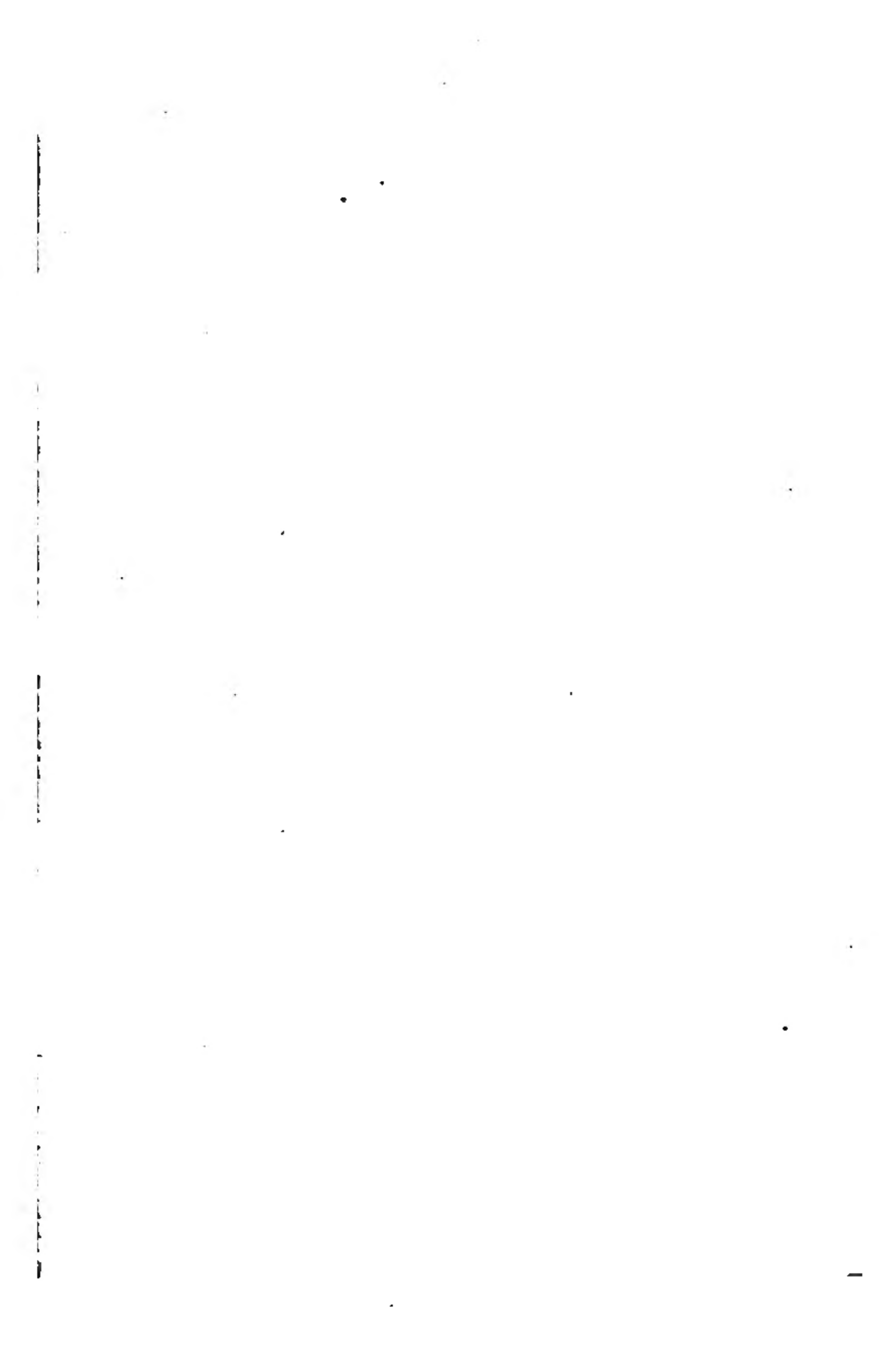
- + *Make non-commercial use of the files* We designed Google Book Search for use by individuals, and we request that you use these files for personal, non-commercial purposes.
- + *Refrain from automated querying* Do not send automated queries of any sort to Google's system: If you are conducting research on machine translation, optical character recognition or other areas where access to a large amount of text is helpful, please contact us. We encourage the use of public domain materials for these purposes and may be able to help.
- + *Maintain attribution* The Google "watermark" you see on each file is essential for informing people about this project and helping them find additional materials through Google Book Search. Please do not remove it.
- + *Keep it legal* Whatever your use, remember that you are responsible for ensuring that what you are doing is legal. Do not assume that just because we believe a book is in the public domain for users in the United States, that the work is also in the public domain for users in other countries. Whether a book is still in copyright varies from country to country, and we can't offer guidance on whether any specific use of any specific book is allowed. Please do not assume that a book's appearance in Google Book Search means it can be used in any manner anywhere in the world. Copyright infringement liability can be quite severe.

About Google Book Search

Google's mission is to organize the world's information and to make it universally accessible and useful. Google Book Search helps readers discover the world's books while helping authors and publishers reach new audiences. You can search through the full text of this book on the web at <http://books.google.com/>



HE
745
A2
1919
PT. 6-8



SHIPPING BOARD OPERATIONS .

27237
H

HEARINGS

BEFORE

U.S. Shipping Board
SELECT COMMITTEE ON
U. S. SHIPPING BOARD OPERATIONS.

HOUSE OF REPRESENTATIVES

SIXTY-SIXTH CONGRESS

SECOND SESSION

TESTIMONY OF MR. MARTIN J. GILLEN

PART 6



WASHINGTON
GOVERNMENT PRINTING OFFICE

177068

1920

SHIPPING BOARD OPERATIONS .

27237
H

HEARINGS

BEFORE

U.S. Shipping Board
**SELECT COMMITTEE ON
U. S. SHIPPING BOARD OPERATIONS.**

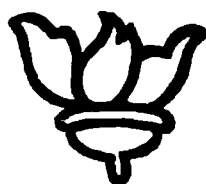
HOUSE OF REPRESENTATIVES

SIXTY-SIXTH CONGRESS

SECOND SESSION

TESTIMONY OF MR. MARTIN J. GILLEN

PART 6



WASHINGTON
GOVERNMENT PRINTING OFFICE

**SELECT COMMITTEE ON UNITED STATES SHIPPING BOARD
OPERATIONS.**

HOUSE OF REPRESENTATIVES.

JOSEPH WALSH, Massachusetts, *Chairman.*

PATRICK H. KELLEY, Michigan.

HENRY J. STEELE, Pennsylvania.

LINDLEY H. HADLEY, Washington.

TOM CONNALLY, Texas.

ISRAEL M. FOSTER, Ohio.

GEORGE H. NORTON, *Clerk.*

MAY 15 '42

SELECT COMMITTEE ON UNITED STATES
SHIPPING BOARD OPERATIONS,
HOUSE OF REPRESENTATIVES,
New York, November 17, 1920.

The committee met in room 401, United States Post Office Building, at 9.45 o'clock a. m., Hon. Joseph Walsh (chairman) presiding.

Present also: Hon. Patrick H. Kelley and Hon. Henry J. Steele, members of committee.

TESTIMONY OF MARTIN J. GILLEN, RACINE, WIS.

The witness was duly sworn by the chairman.

The CHAIRMAN. The committee will resume. What is your name?

Mr. GILLEN. Martin J. Gillen.

The CHAIRMAN. Your residence?

Mr. GILLEN. Racine, Wis.; business address, New York City.

The CHAIRMAN. Were you formerly connected with the United States Shipping Board or the Emergency Fleet Corporation?

Mr. GILLEN. I was.

The CHAIRMAN. In what capacity?

Mr. GILLEN. Under the title of special assistant to the chairman of the Shipping Board and the president of the Emergency Fleet Corporation.

The CHAIRMAN. How long were you in that position?

Mr. GILLEN. From the 1st of October, 1919, until the 1st of August, 1920.

The CHAIRMAN. What is your business?

Mr. GILLEN. Well, I am a six-year college man with the degree of law. I practiced law from 1898 until 1911, when I abandoned the practice of the law and started corporate reorganization work. I reorganized the Mitchell-Lewis Motor Co., and had control of it for two years; the Mitchell Wagon Co. for two years. I organized the Racine Rubber Co. Since that time I have been on reorganizations and commercial, financial, and analytical work up until the time of the war. At the time of the war I joined Mr. Baruch on the War Industries Board and was one of the assistants to G. N. Peak, who had charge of the finished products section, which meant all the finished products that went overseas for war purposes.

The CHAIRMAN. You are under subpoena to appear before this committee?

Mr. GILLEN. I am, and am here to answer to that.

The CHAIRMAN. How long did you remain with the War Industries Board?

Mr. GILLEN. About a year, and was with them up until about the 27th or 28th of December, 1918. I stayed there some little time after the armistice to close up some work.

The CHAIRMAN. Did you have any other connection or association or did you participate in any other conferences, or did you hold any other official position in connection with the Government participation in the war or its preparation for war?

MR. GILLEN: I wrote a plan of industrial mobilization in 1915 and circularized all the officials of the Government. The basic principles of that plan are the War Industries Board.

THE CHAIRMAN: Was that plan adopted or followed?

MR. GILLEN. The basic principles were adopted by Mr. Baruch later on, but he himself had been working along the same lines. I might add to that that with the corporate connections I had, after the war began, in 1914, I came in close contact, as early as October, 1914, with the French, Russian, English, and Italian buying commissions in New York City, and saw the methods of purchase in this country employed by foreign countries, and I had about two years' experience with those different departments.

THE CHAIRMAN. Were you also a trustee of the Emergency Fleet Corporation while you were with the Shipping Board?

MR. GILLEN. I was.

THE CHAIRMAN. Are you still a trustee?

MR. GILLEN. I resigned the place practically the 1st of August, 1919.

There may be just one other thing to supplement my testimony there——

THE CHAIRMAN (interposing). The 1st of August, 1919 or 1920?

MR. GILLEN. I meant 1920. There may be one thing more to supplement my testimony: In the experience that I received dealing with these foreign commissions, I saw the method of the War Industries Board, by groups, and then saw how the foreign countries were getting mulcted in this country on their contracts; and after the war broke out in this country, and about the latter part of April, 1917, the first month of the war, I was called to Washington, along with six other men, to prepare the plans for the meeting of the governors and the representatives from the States, which was held, I think, on the 1st of May, 1917—within less than a month after we went to war.

THE CHAIRMAN. Who was the chairman of the Shipping Board when you were there?

MR. GILLEN. John Barton Payne, until about the 1st of March, when he went over to the Interior Department.

THE CHAIRMAN. The 1st of March of this year.

MR. GILLEN. Yes, sir; and Admiral Benson afterwards.

THE CHAIRMAN. You were special assistant to Admiral Benson until August, 1920?

MR. GILLEN. Yes, sir. And also after Judge Payne left, there was a vacancy in the trusteeship of the Emergency Fleet Corporation, and I was elected as trustee.

THE CHAIRMAN. As special assistant, when you were first appointed, what were your duties?

MR. GILLEN. May I answer that in my own way?

THE CHAIRMAN. Yes.

MR. GILLEN. Judge Payne had been my attorney on all of the reorganization work that I had done through the Middle West, and he had been on the job in Washington about a month when he asked me to come down and give him a month's time on analyzing the situation that was confronting him, as he was quite worried as to the conditions he found there. When I came and saw him I told him I was free, and that I would spend some time with him, having the privilege to leave when I wanted to. He then wanted to know what

title I would take, and I said I did not care for any title, but that if I came there I must be in some way under his sole jurisdiction, so that I could fearlessly, under his orders, make such examinations as I thought fit, and make such recommendations as I saw fit, and not be under the control of anyone except him. I then came in the capacity of an analyst of the situation.

The CHAIRMAN. In a general way, did you examine the records?

Mr. GILLEN. Shortly after I came there the Treasury Department of the Fleet and the Shipping Board, the accounting department of the Fleet and the Shipping Board, the legal department on claims began to function up through me to Judge Payne. After I had been there a few days I started to reorganize quickly the situations that I found, and the different departments began the work to carry out the plans that Judge Payne would decide on, so that all the records would come up to me. I would examine the records, and would work out matters with the officers, work out with them all statistical matters which came up, and make analyses, and lay them before Judge Payne, so that he could get some definite information upon which to make decisions.

The CHAIRMAN. At the time you were there the building program had been undertaken, the construction program?

Mr. GILLEN. The construction program was well under way when I came there. In other words, all the shipyard plants in this country, the agency ones under the Government and the contractual relations established, and much of the steel had come in, and they were well along in their building program. That was equally true in the matter of moneys advanced to the old line shipyards. That was equally true with the new yards that were being built in this country.

The CHAIRMAN. Do you know how many ships were requisitioned on the ways?

Mr. GILLEN. There were requisitioned on the ways about 451 ships. They called them ships if the material was in the yards or the keels were being laid. That meant that when the order went out to requisition, what was found in the yards of this country, they took over the plans and specifications and material that was found on hand and whatever construction had been done. There were 451 of these ships.

The CHAIRMAN. Were they operating ships upon the sea?

Mr. GILLEN. They were.

The CHAIRMAN. Do you know how many?

Mr. GILLEN. Shortly after the war broke out, the order was entered commandeering the use of all ships under the American flag, and all boats like scows, tugs, and cargo boats. This took in passenger boats, wooden and steel; it took in tankers, wood and steel; and tugs, wood and steel; and cargo boats, wood and steel. They took over about 574 of those boats, and during the war the private owners operated them under Government management.

The CHAIRMAN. Do you know, approximately, how much the Shipping Board expended?

Mr. GILLEN. Do you mean as a total?

The CHAIRMAN. For all purposes.

Mr. GILLEN. The last estimate that I saw was that there had been approximately \$3,400,000,000. Of that, I understand there is now about \$50,000,000 still available in one form or another, with some

receivable. In addition to that, out of those 574 ships operated during war time, at the very high prices for freights then prevailing, the Government took in somewhere around \$400,000,000. If you add the \$400,000,000 to the \$3,400,000,000 you have \$3,800,000,000; and all that has been expended, except, I should say, about \$50,000,000.

The CHAIRMAN. Did you make an examination to ascertain what the situation was with reference to the accounting system?

Mr. GILLEN. I did.

The CHAIRMAN. Will you state what you found?

Mr. GILLEN. May I state that in my own way, so as to be fair to the situation?

The CHAIRMAN. Yes.

Mr. GILLEN. First, the Shipping Board was formed and had to set up a set of books to take care of its operations. Under the law, the Shipping Board was to create, or could create, an agency, and it did create the Emergency Fleet Corporation. Now, it was necessary to set up a set of books which would show first, the contracts that were entered into by the Shipping Board and the Emergency Fleet Corporation. Those contracts would be in reference to the ships it took over at sea and the operations thereof; that is, freight moneys received and expenditures made. It would have to cover the contracts made by the Government for its agency yards, such as Hog Island and the Merchants' Shipbuilding Corporation. Then it would have to have bookkeeping records on all the private shipyards that the Government advanced money to. In addition, it would have to have records of all contracts for ships to be built. Then it would have to have records of disbursements for all the materials that were purchased.

Now, on October 1, 1919, shortly after I got there, I made an examination to see what was the matter with the accounting situation. I discovered that they did create a set of books to take care of the shipping operations; that the operations at sea of the 574 tugs, scows, tankers, passenger boats, and cargo boats were covered by this. And they appointed a comptroller to take charge of that particular division of the work. And I found that that department never functioned. In other words, they never got their records together under a system which enabled the Government to know at any given time how much the Government has taken in in cash on those boats operated during the war and after the war up to October 1, 1919. Nor had they any system by which they could tell the disbursements that had been made by private operators operating those ships for the Government. Nor had they any record showing how much cash was in the hands of operators.

To illustrate, we discovered that on all the ships operating during the war by the Government, with the terrific profit coming to the Government—because freight rates were running at one time as high as \$300 a ton—that there was created up to October 1, 1919, over 8,000 voyage accounts. A voyage account of a ship would be, for instance, from New York to Liverpool. There were over 8,000 of these voyage accounts on October 1, 1919. And only eight of these voyage accounts had been audited.

The CHAIRMAN. Did you say only eight?

Mr. GILLEN. Yes, sir; only 8 of the 8,000 had been audited. We found that there was no record set up at Washington or elsewhere, in the Government records of the Shipping Board, which showed the transactions of these 8,000 odd voyages. And we found that there was belonging to the Shipping Board vast sums of money, cash, that there was no record of in the division of operations, or in the Treasury Department of the Shipping Board. We did not know, that is, Judge Payne did not know, to what vast sums that money would run into. Those boats were operated by the United States Government through the original shipping companies who owned the boats, and no supervision, no standard set of accounts, had been ordered in the offices of these shipping companies. The result was that pretty nearly all of them conflicted—the operation of Government operated boats with their own boats. In other words, they ran the transactions right straight through their books without separating the account. Under the contract had between them and the Government they were compelled to put the money in the name of their own company, with the words “Shipping Board fund” or some other word attached, to designate them as Government funds. But in the accounting department of the division of operations, and in the Treasury Department of the Shipping Board, no scheme or plan had been made to check up what cash there was in the bank belonging to the Shipping Board.

The CHAIRMAN. Mr. Gillen, do I understand you to say that in no office of the Shipping Board or of the Emergency Fleet Corporation was there any account of the moneys belonging to the Government as the result of the operations of these ships, up to October 1, 1919?

Mr. GILLEN. There were some records, but the system had fallen down to where there was such confusion that no man could get any reflections from them. There was no record of the moneys belonging to the United States Government; in other words, no one, from the records at Washington, could draw an account stated between, we will say, the Barber Line and the Shipping Board, for the operation on the part of the Barber Line of the ships it controlled for the Government; none whatever.

That was one of the first things that bothered Judge Payne. We went in session on that about the 3d or 4th of October, and we got out some strong telegrams to the ship operators, whose names we had, calling attention to the fact that they were not accounting for their moneys, and that we expected them to get the moneys belonging to the Government properly into their accounts. Upon request of Judge Payne I came to New York to get a slant on the situation——

The CHAIRMAN (interposing.) Did you have a record of the names of all the operators there at Washington?

Mr. GILLEN. We were able to check them up. We had to wait a few days until we could get the list in shape.

Mr. STEELE. May I interrupt you there?

Mr. GILLEN. Certainly.

Mr. STEELE. You say there were no records in Washington. Were there any records anywhere else?

Mr. GILLEN. There would be the records that had been created from the transactions in the offices of the ship operators, but they were confused with their own business. There had been no separation in their own accounts.

The CHAIRMAN. You may proceed.

Mr. GILLEN (continuing). I took the matter up with Mr. Rossiter—

Mr. KELLEY (interposing). You were saying that you came to New York when you were interrupted.

Mr. GILLEN. Yes, but I will make a little explanation before I get to that.

Mr. KELLEY. All right.

Mr. GILLEN. I took the matter up with Mr. Rossiter, who was then Director of Operations, and had a conference with him and with Judge Payne. Mr. Rossiter said he believed there were great sums of money belonging to the Government in the banks of this country. I said to Mr. Rossiter, "Has any effort been made to get these moneys in?" He said, "No; that is Mr. Nevins's job." I said "How can you tell anything about how you are running this fleet unless you know what the reflections are from the running of the ships?" He said, "In my department I have tried to set up a little system, but I can not run the comptroller's department or the treasury department."

Mr. KELLEY. You mean the treasury department of the Shipping Board?

Mr. GILLEN. Yes, sir.

The CHAIRMAN. You may proceed.

Mr. GILLEN. He said in that conference "A friend of mine in New York the other night said one ship corporation had \$25,000,000 of Government money." Judge Payne then decided that I should make a trip to New York. I came to New York, and I visited eight banks to find out what the bank balances showed in those banks. And I made a report to Judge Payne. I called on eight banks and told them that the Shipping Board would like very much to have them give us by 5 o'clock that afternoon the bank balance of every account belonging to the Shipping Board or the Emergency Fleet Corporation, together with the interest paid on those sums, and the names of the companies or institutions that those funds are in. Each one of the banks complied. I have not a copy of that, but that is available.

I have, however, a copy of the report in my hand of October 25, 1919, given to Judge Payne, and it, possibly, will explain that point if I read it into the record.

OCTOBER 25, 1919.

Memorandum for the chairman, re collection and accounting for voyage accounts.

MY DEAR JUDGE: I desire to make the following report after having spent the day in New York yesterday at the comptroller's office and after having visited at eight of the banks:

(1) A large sum of money has been paid on account of voyages into our treasury. A compilation of this should be available to you now; and I have asked Col. Abadie for it.

(2) A cash balance sheet of the banks in which the operators' funds are deposited is readily available, which total amount of our cash balances added to the cash already received will give us a very good estimate of the total net operating profit to date. Attached are the cash balances of 8 banks as of yesterday, which show cash in banks in New York in these 8 banks of \$21,250,000. We have operators' funds in 27 banks in New York city.

(3) You will note that the rate of interest on daily balances on our funds ranges 2, 2½, 2½, 2½, 3, and 3½ per cent, different rates being paid by the same bank on different accounts.

(4) We have examined the Barber bank balance which is about \$250,000; and over a period of six months the daily average bank balance has been practically \$2,500,000. which is over 80 per cent too high.

We found a few big ones, and Barber paid, but the bank balance Barber held of Government money under this fund was \$2,500,000 for a period of over six months, because there were no records at Washington whereby the treasury department of the Shipping Board could reach out and say, "Barber, these are our funds; turn them back into us, or turn them back into the Treasury of the United States."

(5) We have also discovered that there are many operating companies which are carrying the funds in their own names as personal accounts which will run into millions—in my judgment they will exceed five or six million dollars.

(6) It is fair to estimate that we are carrying \$35,000,000 in cash in New York City alone for bank balances as a protection to the operators. There is no reason why, if we carry an impress fund of \$3,000,000 in some bank in New York City to which the operators could go in emergency cases, the balance of that money should not be drawn down at a very early date.

(7) I am informed that some of our funds is in banks which are not even Federal reserve banks. Of this fact I have no personal knowledge.

(8) No control of the above funds has been set up between the Emergency Fleet Corporation and the bankers.

Plan of control, part of which has been prepared by Col. Abadie, comptroller:

(1) A monthly statement by each ship operator to be filed upon our form, showing receipts, disbursements, and balances itemized.

(2) Daily cash balance sheet to be filed by the operator, and another by the bank.

(3) An immediate call by letter of yourself as chairman to each of the banks holding our funds to furnish daily cash balance sheets of each customer's account, which is the usual bank practice; to ask that our daily balances shall carry 2 per cent up to \$10,000 and 3 per cent on all daily balances beyond; and to request that each bank name an officer of their bank who shall be the bank's representative in all matters in reference to these funds, with whom our treasurer, Mr. Tweedale, and our comptroller, Col. Abadie, may deal.

(4) The completion of an audit drive now being made by the comptroller in New York of all of the accounts and claims of the operators and of the bank balances over a certain period.

(5) We will draw a large part of the money now in the New York banks; and we will establish the amounts of the funds that each operator may hold and the reserve sum of \$3,000,000 for the comptroller to be used by the operators in cases of emergency.

(6) An order to change the present name under which the funds are carried so as to carry all funds under the name of the United States Shipping Board, A. B. Jones, operator; and to establish the right in our treasurer, Mr. Tweedale, to withdraw from these operators' funds from time to time as those balances become excessive to the needs of the operators under the rules which we will lay down.

(7) A sharp letter or telegram should be sent by you to those operators who are now carrying the Shipping Board funds in their names to come to Washington, and a date should be set for them to see you. It leaves the Shipping Board in a vulnerable position to have possibly \$10,000,000 in the names of private persons. I believe you are the only one who can correct this quickly.

(8) A conference should be held with Mr. Tweedale, Col. Abadie, Mr. Rosseter, and yourself at an early date to go over the data we have at hand and determine just what prompt action will be taken.

I desire further to report that the voyage accounting is now well in hand; and if prompt and vigorous action is now taken, this matter can be quickly settled.

Respectfully submitted.

MARTIN J. GILLEN,
Special Assistant.

Mr. GILLEN. Now, gentlemen of the committee, that was October 25, 1919. Prior to that, in order to correct this situation, Judge Payne ordered wires to be sent out to all the big operators to send in the excess funds in their hands to the Government, and to notify us of their cash balances. At the same time, we put a force of 900 men on this bank audit to audit up bills and accounts, and it took some little time to build that force up.

On February 27, 1920, Col. Abadie reports as to progress on that particular piece of work [reading]:

Voyage account drive: Up to October 1, 1919, there had not been rendered accountings on voyages that would permit our preparing a profit and loss statement as of June 30. To bring these voyage accounts in a drive was started on October 8, 1919, which so far as the field work was concerned was ended on February 20, 1920.

That means that these audit men went out into the various offices, examined the logs of the ships, examined the records of the operating companies, and examined the banks outside. [Continuing reading:]

During this period there was obtained 3,725 accountings on 1,215 vessels, representing \$119,979,497 in revenue and \$77,629,000 expenses. During the same period there was collected in cash more than \$120,000,000. We have now received in the home office more than 4,000 completed voyage accounts on 1,300,000 vessels—

The CHAIRMAN. Pardon me, what is that?

Mr. GILLEN. On 1,300 vessels. Take your pen off just a minute; we get in the habit down there of speaking in millions and millions.

Mr. KELLEY. Else you think you are not doing much.

Mr. GILLEN. We think we are not doing much; but 1,300 vessels represents a great deal of money. [Continuing reading:]

Voyage accounts on 1,300 vessels, representing \$417,521,000 in gross revenues. A large force temporarily employed for the purpose is auditing these accounts and preparing operating cost statements by vessels and voyages thereof.

Now, so that no misunderstanding may be had as to what that means, in brief it means that the excess money was in the hands of the operating companies, operating ships during the war and afterwards for the Government, on or about October 1, 1919; but the excess money was somewhere about \$120,000,000, and there was no record in Washington on our books of the names of those companies nor of the amounts, nor was there any system by which they could be obtained.

We thereafter, for the benefit of Judge Payne, the Shipping Board, the treasurer of the Fleet Corporation, and the director of operations, got out a weekly balance sheet of the cash in the bank in the name of operators for the districts of the United States. It covered the 176 operators and showed just what cash they had, and it was built up so that you could follow it through from the time we first established the first cash balance by weeks; so that after it was all worked out we found that it was necessary to keep in impressed funds in the hands of operators, as a gross sum for the 176 operators, somewhere between \$14,000,000 and \$16,000,000.

In this regard it must be kept in mind that all of that confusion was there on October 1, 1919, and that we then had a great building program still going on; we had a great many ships of our own then in operation, and it became necessary to devise a plan of bookkeeping, of control, that would correct that situation on the one hand, which we call back accounting, and on the other hand start a new set of records for the new operations. We were fortunate in the Shipping Board in having Alonzo Tweedale, who for many years had been the comptroller of the District of Columbia, and he laid the general plan of accounting to take care of this situation, and his plan was to establish, about the first of the year 1920, of this year, a new set of books in the offices of the operators, into which only the reflections and transactions of our ships should go, and over which, while kept by the operators, we had absolute control. In other words, a standard system of accounting, with all forms necessary, and with the proper reports from those books under our direction and under our control.

The CHAIRMAN. You said Mr. Tweedale was in the Shipping Board; in what capacity?

Mr. GILLEN. He was then treasurer. Later he became comptroller; but Col. Abadie, Mr. Tweedale, and myself laid out the plan of the accounting, both in the treasury and in the comptroller's division.

The CHAIRMAN. Treasury of the Shipping Board?

Mr. GILLEN. The treasury of the Shipping Board. The new set of books have been installed in the operators' offices and the forms arranged for, but it was suggested early in December of last year, by Commissioner Scott, that we should have a new form of operators' agreement. It was a most involved plan that was worked up. It was one under which no accounting could ever be carried out. However, along in March the board passed that plan of accounting, even with our new books started. Mr. Donald, Mr. Stevens, Mr. Scott, and Judge Payne determined upon that contract. It is without criticism to them, but Col. Abadie, Mr. Tweedale, and myself were not in accord. There was much merit in the plan if it worked out. They put the contract into operation, and they never were able to get an accounting out of that plan, and in August of this year they adopted a simple form of contract, of 5 per cent on outgoing and 2½ per cent on incoming freight, which is the old-established practice of shipping companies, and I believe that that contract is now in force, and so the accounting will clear up, and there was not as much damage done to the accounting by the so-called Scott plan, because we fixed up or arranged in the new contract, the last one, that it should be retroactive, and since all of the records have been properly kept in the new books starting January 1, no real outstanding injury, only a delay to the new accounting, occurred.

I think that is all on the operations, unless you want to ask some more questions.

The CHAIRMAN. Did you make any examination as to the set of books or the accounting for construction or other work of the system they had there?

Mr. GILLEN. I did.

The CHAIRMAN. What did you find?

Mr. GILLEN. Before you pass from that, I have made some notes of my own on this [consulting paper].

The CHAIRMAN. With reference to your new contract, if you know, is that still going to leave the handling of the ship and the matter of ordering of supplies and repairs in the hands of the operator, or does the Shipping Board exercise jurisdiction and control over those matters?

Mr. GILLEN. The new contracts were passed some time in September. I left there in the latter part of July, and I would not care to pass on that, as I do not know how they finally whipped it into shape.

The CHAIRMAN. Very well; we will get that direct.

Mr. GILLEN. I do know, though, as to the accounting.

The CHAIRMAN. What do you know about the accounting for other activities, the construction work?

Mr. GILLEN. On the construction work, in order to be fair to the situation—and my remarks will follow the brief analysis I make first—in order to keep the construction account straight, we will say moneys coming by way of appropriation from Congress, the total amount was \$3,400,000,000; you had the contracts that were placed as liabilities against that for ship construction, wood and steel of all kinds, thousands of contracts; you had the liabilities incurred for the materials that were purchased by the Emergency Fleet Corpora-

tion to go onto the ships, such as steel and lumber and equipment; you had the construction progress on the 451 requisitioned ships, in which the former owner or the ship's owner had an interest to the extent it was completed, and the balance of that; you had the cash advanced on contracts and for building purposes, and then you have the cash advanced on the part of the Government on its three big agency yards—Hog Island, Merchants, and the other. Now, it was necessary, as the liabilities were created, to have those liabilities go properly on the books of the corporation as the foundation liability, and then the disbursements from funds to contractors carried out.

They started a system of books in Washington, and they shortly moved all the construction books and records over to Philadelphia. They continued to make contracts for ships in Washington and in Philadelphia, and for material in Washington and Philadelphia, for the board was functioning at all times, the trustees of the fleet, after it was once organized, in the Shipping Board in Washington, and great vital contracts were being made and passed over there, while in Philadelphia you had a big general construction program going on. The Shipping Board was taking over 451 ships by requisition orders. The construction division was furnishing material on the completion of those ships. The treasurer of the Shipping Board in Washington was setting up great, vast imprest funds all across the country; all of which was necessary, and for which there can be no criticism, but they had no accounting ability to devise a simple plan large enough to take care of that situation, and shortly it, too, fell down in a very large way.

Before they moved to Philadelphia they began to set up books in the 13 building districts of the United States to carry on this great shipbuilding program, and so they had a confusion of records at Washington, in the home office, records at Philadelphia, records through the 13 districts, and this would not come up to the trustees of the Fleet or to the Shipping Board officials, because the contractor was interested in getting his contract and interested in getting enough money to complete his work. Those were two simple things that could be done. For the Shipping Board, through its organization, could easily make all the contracts that were necessary for whatever the purpose required. On the other hand, if you needed \$5,000,000, legitimately needed it, to carry out a contract you had with the Fleet Corporation, all that was necessary was to have the chairman of the board there, or some one look over it from your standpoint and say, "Yes, it is necessary," and get the money at once from the Treasury from the appropriation in the Treasury of the Shipping Board, and consequently until this program was well along toward settlement, where the contractors had to begin to come up to the Government, you would not find the defects, and they were not found until the building program was along pretty well, where final settlements began to obtain.

On October 1 one of the things that Judge Payne pointed out to me was that there were great outstanding claims against the Shipping Board. He said:

A claim has been settled by the Shipping Board for about \$34,000,000 with the Norwegian shipowners. They have another one here of \$15,000,000. There is a great claim of the French Government for ships taken on the ways, of somewhere between \$25,000,000 and \$60,000,000 as do not know the amount. There are claims by the

millions. There are claims by Danish builders; there are great tanker cases here where the claims run from three to fifteen millions of dollars. Again, there are a great many claims here that are coming up from the seizure of those ships, 451 ships under construction.

And he said:

I don't know what to do, because I can not get definite records, and I find that no principles have been established here to settle a line of cases.

It then became necessary to make an investigation into the accounting department of the construction division, and this is what was discovered.

May I go back to show you, in order to settle a case, what is necessary to come to us? In order to settle a requisition case, that is, a case where we take a ship that is half completed, we will say, from the Bethlehem Steel Corporation, we must know how much the former owner, namely, if John Jones or anyone else made the contract we must know how much the former owner paid the Bethlehem Steel Corporation. We must know that exactly. We must know then how much labor has gone into the construction that is in that partially completed ship. We must know how much labor, we must know how much overhead, and we must have an inventory of the material that is there in the yards, and if we can get those elements we can arrive at a proper settlement of that case.

We discovered—or not discovered, it appears, because we take no credit for having discovered a lot of things, they were there—it appears that when we reached out by order and seized the 451 ships on the ways, Joseph Cotton, of McAdoo, Cotton & Franklin, with Mr. Capps, then acting——

The CHAIRMAN. Acting what?

Mr. GILLEN. Acting, I think, as chairman of the board, wasn't he?

Mr. STEELE. You mean Admiral Capps?

Mr. GILLEN. Admiral Capps. Wasn't he then chairman of the board? No, chief of construction.

Mr. STEELE. Was he not general manager of the Emergency Fleet at one time, too?

Mr. GILLEN. I don't know as to that, but he held a position controlling the contracts. General manager? They examined into the English practice, and they found that when England went to war its citizens were building a great many ships on the ways, and a great many foreigners had accounts there, and the English Government took the position that under its sovereign rights it could commandeer anything that it saw fit to commandeer, and it would only have to pay just compensation for what it commandeered and not any consequential damages. So it issued the order that it commandeered the shipbuilding ways, and it put an order in to the effect that all shipbuilders must have removed from their ways at once everything that was being built thereon. At once the foreigners and the British shipping men who were building ships came in and said, "Don't do that; we will settle with you," and a reasonable settlement was almost instantly obtained.

Admiral Capps and Mr. Cotton took the same position, but they took one further step; they said: "We will commandeer everything that is on the ways, but we will not commandeer contracts." And it was a very wise thing that they did; it saved the Government possibly from one hundred to one hundred and fifty millions of dollars in damages.

They not only made that rule, but they sent a notice to every shipyard in America that that was the act of the Government, and they sent notice to every ship contractor who was having a ship built for them, that that was their rule. They then said:

We will pay to the man who has the contract with the shipyard all the payments that he has made to the shipyard, and we will charge that ourselves to the shipbuilder as one of our progress payments, and take matters over.

In that great set of cases, 451, and the requisition program runs into eight hundred millions of dollars, the Construction Division made no record of the inventories on hand in those yards; they made no record of the progress payments made to the shipbuilders, and not until some months afterwards did they make an estimate of the amount of material that was on hand, and the state of completion. And before that was done, before those records were made at Washington, certain big claims were settled by the Shipping Board at terrific losses to the Government.

The CHAIRMAN. Do you recall any of those cases?

Mr. GILLEN. I have one in mind.

The CHAIRMAN. Which one is that?

Mr. GILLEN. The Norwegian claim. May I take the file, and I can get just the way that the number ran.

The CHAIRMAN. I hand you a file marked "Norwegian claims," and chart. What claim was that, Mr. Gillen?

Mr. GILLEN. Just let me get this record out before me. May I, so as to make this record clear before I go into this; just make a short statement? On October 1 we found that condition, and found that certain claims had been settled, with no knowledge on the part of the Shipping Board or any of its officers as to the records, the true records, and it became necessary to get those records, because we had from 300 to 350 of those cases still to settle, and we had large claims from the Norwegian Government, from the Japanese Government, and from the French Government on ships that we had taken over, and they were demanding very large sums.

The CHAIRMAN. You say from those Governments?

Mr. GILLEN. From citizens of those Governments. The citizens themselves; the Governments did not have the contracts. For instance, Norwegian citizens had put the contracts in. There were a few contracts in which the French and British Governments, I believe, were interested.

Now, to illustrate, and that is necessary before I analyze the situation that we found there; we started another audit drive on the requisitioned ships. We sent a force of men into each shipyard where we had taken over a ship on the ways, and we got an examination of the accounts of the shipbuilder, and then we took a sworn statement from the shipbuilder of first, the former owners that had been made, and that his book accounts were correct, and they were audited out. That gave us then the records upon which we could move and check the claimant's records when the claimant brought in his record. We then forced the claimant in each case to present to us his claim, analyzed, and when we got that we had our own record which we had examined to find out whether it was correct or not.

It became necessary, on a settlement with the Pan-American Petroleum Co., to find out the history of the settlement with the Norwegians of the requisitioned tanker *Wilhelm Jobsen*. We could

not find any record in our own office, and it was necessary for us to reach out and go to the Norwegian Government in order to get the record of the settlement.

I do not think I am stating this very well for the record. Let me go back just a minute. One of the big claims that was settled by the board in April, before Judge Payne arrived in Washington, was the Norwegian set of claims on 27 ships that were taken on the ways, known as the stray group. For these 27 boats taken on the ways, in partial completion, we paid \$34,500,000 to the Norwegian owners of those contracts. There had been considerable talk that there was something wrong with that settlement, and Judge Payne put an order in, after I arrived there on the 1st of October, that no further settlement on requisitioned ships be made until we get our records in shape, and until a principle be established.

We then went back and found that Joseph Cotton had made the record clear below, and that our rights in behalf of the Government were fixed.

The CHAIRMAN. What do you mean by that? He had made the record clear?

Mr. GILLEN. He had set out the method under which we took it over, namely, that we would take over only the things we found on the ways and the material in the yard applicable to it. In other words, he had protected the Government's rights.

The CHAIRMAN. Did that antedate the settlement of these 27 Norwegian ship claims?

Mr. GILLEN. Oh, yes; that was done when we took those over. We took them over right after we went to war. That was the original requisition order, under which they were taken.

Mr. STEELE. They were ships under construction in this country, were they?

Mr. GILLEN. Under construction in this country; yes, sir.

Mr. KELLEY. Mr. Gillen, under the principle which he laid down, our Government would be obliged to pay these foreign shipowners only a reasonable price for the labor and material which had entered into the construction of the ship up to the point where we took it?

Mr. GILLEN. Just compensation.

Mr. KELLEY. And not possible profits which they have lost by reason of our taking the ships?

Mr. GILLEN. Yes.

Mr. KELLEY. That is correct, is it?

Mr. GILLEN. Yes. In other words, what we took over under the Cotton rule was the materials we found there and not the contracts, you see. Did you have a question you wanted to ask me?

Mr. KELLEY. What I wanted to do was not to break in, but to establish what the Cotton principle was.

Mr. STEELE. Well, the Cotton principle, as I understand it, was that they did not requisition the contract, they simply paid for the ship so far as completed, at its actual value, irrespective of any—

Mr. GILLEN. Plus any materials that were in the yards.

Mr. STEELE. Plus any materials in the yards, irrespective of any consequential loss to the owner?

Mr. GILLEN. That is right, sir.

Mr. KELLEY. That is the idea.

Mr. GILLEN. Judge Payne put the order in, when this began to come up—he did not get hold of the story of this, apparently, until after he had been there about a month; Judge Payne came there, I think, the 1st of August or the 1st of September—the 1st of August—and had been there about two months; that none of these settlements, either for foreign account or for American account, should occur until something was done, so this was one of the first things that was given to me by the judge. It created what we called our night organization, with Mr. Beck and Mr. Clark, and in that little organization we built up the methods to get after all of these big claims. They did the work. We tried to find the basis of this settlement which had occurred in April, \$34,000,000.

The CHAIRMAN. For 27 ships?

Mr. GILLEN. For 27 ships.

The CHAIRMAN. Not completed?

Mr. GILLEN. Not completed. There was not, and there is no evidence to-day, record evidence, in the files at Washington that I have been able to find, that shows the method under which this computation was arrived at, and in order to get up a chart of the situation so we might know where we were at, we called upon the State Department in this Pan-American case to get us the record that was made over in Norway, where the fund was distributed. It was distributed by some kind of an Arbitration Board over there, that took all these Norwegian claims in and settled on them, divided up the money, the \$34,500,000. They gave us the record, and we then made our chart up. We then applied the principle to this settlement that we have applied to all the other settlements made under Judge Payne on requisition, and we find that they were overpaid \$23,095,404.84.

The CHAIRMAN. You say overpaid \$23,000,000?

Mr. GILLEN. Yes, sir.

The CHAIRMAN. How do you ascertain that? For instance, take one ship and give us how far it was completed.

Mr. GILLEN. We will take the steamer *Wilhelm Jebsen*, the first on the column. The *Wilhelm Jebsen* was being built in the Union Iron Works, hull No. 140, for the account of *Wilhelm Jebsen*, when the requisition order went into effect. It apparently was 93 per cent complete on August 3, 1917. The contract price for that job, with the Union Iron Works on the one part, and *Wilhelm Jebsen* on the other, was \$1,035,000. Jebsen had paid to the Union Iron Works \$672,750; that was all the cash that he had advanced under his contract.

The CHAIRMAN. Have you got any record of what the Shipping Board paid to complete the ship?

Mr. GILLEN. Yes, sir. Let me go through with this; just a minute, I will come to that in a minute, if you will let me. Jebsen, for his \$675,752, was given \$2,045,750. The Shipping Board, to complete that ship, in addition thereto, paid \$315,706.

To give you a better illustration of that settlement, we will take claim No. 21, Robert Nilson is the name of the owner, the Manitowec Shipbuilding Co., hull No. 92. The record shows it was about 13.9 per cent completed when the requisition order was entered into. It was a small boat; the contract price for that boat was \$400,000. The Norwegian claimant had paid on account of that contract

\$40,000; that was his investment. He was paid for the \$40,000, \$395,000, or almost 1,000 per cent. The Government paid in addition thereto, to complete that ship, \$650,483.

There are 27 of these cases. The amount of the contract price is here [indicating on chart].

The CHAIRMAN. What is the total contract obligation for these 27 ships?

Mr. GILLEN. It is not down here, but can easily be figured. I intend to submit this chart for the record, and you can figure it up; But the outstanding fact is this, that these settlements were made at Washington contrary to the principles laid down and the procedure laid down, and the record laid down by Mr. Cotton, acting as counsel, and they were made without any knowledge on the part of the Fleet Corporation of the facts involved in each one of these shipyards, because it was after October 1 that we went out and built up our records. I am informed it was arrived at by trading, that the Norwegians requested \$42,000,000, and it was worked down to \$34,500,000.

The CHAIRMAN. What is the total amount that the owners, for whom these ships were being built, in the case of these 27 ships, had paid to the builders?

Mr. GILLEN. The total is the compilation of this column [indicating].

The CHAIRMAN. Have you got the total down there?

Mr. GILLEN. The total paid?

The CHAIRMAN. To the builders, by the people for whom the ships were being built.

Mr. GILLEN. \$11,404,595.16.

The CHAIRMAN. That is what these 27 people, or the people who were having these 27 ships built, had actually paid to the shipbuilders on account of the contracts; is that it?

Mr. GILLEN. Yes, sir.

The CHAIRMAN. And the total amount paid by the United States was \$34,500,000?

Mr. GILLEN. Yes, sir. In a word, they reached over and assumed, in that particular case, that they had taken over the contracts. What happened with these contracts in Norway was this: These Norwegians would place these contracts here in America. They would take them over to Norway and gamble on them.

We found in many cases that they would pass through at least seven or eight hands, and if, for instance, they had a contract here at \$160 a dead-weight ton they would sell it to the next man for \$170 or \$180, and when they got through they would have over there a contract finally in the last man's hands, for \$300 a ton. In other words, all of the gambling was done over there, all of the money was over there, and what actually transpired was that for the gambling that took place over in Norway, among the fellows who had their first prices and the last, we paid for all of the gambling that was done on these contracts, approximately \$23,000,000.

The CHAIRMAN. Can you tell us what the Shipping Board or the Government paid to complete these ships?

Mr. GILLEN. No; but by adding that column, by adding some columns here—it is too long a job, you can see, to do it now, but we can have it done.

The CHAIRMAN. I understand your statement to be, Mr. Gillen, that under the principle established by Mr. Cotton, if I recall correctly at the time the ships were requisitioned, the sum to be paid under that principle was \$11,404,595.16 in these 27 cases?

Mr. GILLEN. Yes.

The CHAIRMAN. How did you ascertain what the contract price was, and how much had been paid to the builders? You said that some audit drive was started.

Mr. GILLEN. Well, we made the audit drive, and our own fellows went out and got that from the shipbuilders' books.

The CHAIRMAN. And are those records available?

Mr. GILLEN. Those records are available at Washington.

The CHAIRMAN. Were those records secured by the auditors, or were they submitted under oath by the builders?

Mr. GILLEN. They were procured by the auditors, but the progress payment was sworn to, after we found it, by the shipbuilding corporation or the officers of the shipbuilding corporation.

The CHAIRMAN. What does "kr." mean, on this chart which you have submitted?

Mr. GILLEN. Kroner.

Mr. STEELE. That is Norwegian money?

Mr. GILLEN. Yes.

The CHAIRMAN. We will have the chart made a part of the record, there being no objection.

(The chart so submitted by the witness is here printed in full, as follows:)

Claim No.	Percentage of completion Aug. 3, 1917.	Contract price.	Cash paid by claimant to builder prior to Aug. 3, 1917.	Amount already distributed by Norwegian arbitration committee.	Cost to Emergency Fleet Corporation to complete.
1	140	31,035,000.00	8672,750.00	82,045,750.00	8315,706.00
2	114	1,151,500.00	400,000.00	1,377,100.00	918,620.00
3	115	1,151,500.00	460,000.00	1,233,100.00	950,275.00
4	356	1,178,000.00	117,800.00	792,500.00	1,304,396.00
5	350	1,300,000.00	1,105,000.00	2,145,000.00	456,866.00
6	346	900,000.00	253,000.00	1,243,000.00	1,609,513.00
7	351	1,012,000.00	101,200.00	849,200.00	1,332,127.00
8	6	1,188,000.00	712,800.00	2,156,000.00	586,252.00
9	12	1,000,000.00	600,000.00	1,786,000.00	481,748.00
10	16	1,000,000.00	600,000.00	1,786,000.00	487,009.00
11	6	1,100,000.00	980,000.00	2,002,000.00	815,380.00
12	3	915,000.00	823,500.00	1,082,500.00	307,780.00
13	3	1,110,000.00	900,000.00	1,914,000.00	609,464.00
14	8	1,144,000.00	724,000.00	1,428,000.00	630,965.00
15	94	800,250.00	216,552.50	925,312.50	1,185,697.00
16	113	824,250.00	583,975.00	1,486,225.00	359,219.00
17	154	775,000.00	232,500.00	777,500.00	728,889.00
18	176	343,200.00	166,800.00	712,000.00	138,980.00
19	80	240,000.00	168,000.00	792,500.00	111,076.00
20	81	240,000.00	168,000.00	792,500.00	109,008.00
21	92	400,000.00	40,000.00	395,000.00	630,483.00
22	101	455,000.00	55,171.31	359,750.00	478,739.00
23	102	455,000.00	27,196.35	281,000.00	634,615.00
24	176	455,000.00	409,500.00	668,500.00	92,231.00
25	2	450,000.00	380,000.00	636,000.00	630,483.00
26	1	482,000.00	184,800.00	462,000.00	861,633.00
27	2	452,000.00	180,840.00	421,740.00	385,016.00

SUMMARY.

1. Average percentage of completion.....	47.5
2. Average per ton cost of acquiring partially completed hulls.....	\$180.04
3. Average per ton cost to complete this tonnage, including award to Norwegians.....	\$277.30
Award of compensation to Norwegian claimants.....	
Aggregate contract price of all above tonnage.....	\$34,800,000.00
Bonus over aggregate contract price.....	21,612,700.00
Award.....	12,887,300.00
Total progress payments made by Norwegians to shipbuilders.....	\$4,500,000.00
	11,404,596.16

Name.	Builder.	Hull No.	Date keel laid.	Percentage of material assembled and work done Aug. 3, 1917.
Wilhelm Jebson.....	Union Iron Works.....	140	Apr. 11, 1917	93.0
B. Stolt-Nielsen.....	Moore & Scott.....	114	May 28, 1917	47.3
Torp & Wiese.....	do.....	115	July 12, 1917	42.5
J. Ringen, A. S.....	Chester Shipbuilding Co.....	356	Oct. 31, 1918 ¹	3.5
Henrik Ostervold.....	do.....	350	June 6, 1916	87.4
H. Westfal Larsen.....	do.....	315	Jan. 2, 1917 ²	17.3
Bjocan Bjornsted & Co.....	do.....	351	Apr. 4, 1919 ¹	9.3
Knut Knutsen, O. A. S.....	Skinner & Eddy Corporation.....	6	Mar. 17, 1917	94.7
B. Stolt-Nielsen.....	do.....	12	Sept. 20, 1917 ¹	18.2
Do.....	do.....	16	Nov. 9, 1917 ¹	12.8
Do.....	Northwest Steel Co.....	5	Oct. 8, 1916	69.7
P. Kleppe.....	do.....	3	Feb. 1, 1917	71.1
Do.....	J. F. Duthie & Co.....	9	Dec. 10, 1916	77.9
S. O. Stray & Co.....	Northwest Steel Co.....	8	Nov. 5, 1917 ¹	20.2
Do.....	Seattle Construction Co.....	94	June 14, 1917	32.1
Richard Amlie.....	Moore & Scott.....	112	Nov. 11, 1916	84.9
A. O. Lindvig.....	Union Iron Works.....	154	Aug. 2, 1917 ¹	30.0
Rob. Nilson & Nyquist.....	Great Lakes Engine Works.....	175	Apr. 10, 1917	45.0
K. Salvesen.....	Manitowoc Shipbuilding Co.....	80	Aug. 29, 1916	94.2
Do.....	do.....	81	Dec. 1, 1916	89.9
Rob. Nilson & Nyquist.....	do.....	92	Dec. 6, 1917 ¹	13.9
Thomas Smedsvig.....	Globe Shipbuilding Co.....	101	Sept. 25, 1917 ¹	7.0
Do.....	do.....	102	Feb. 19, 1918 ¹	6.0
Rich. Peterson.....	Great Lakes Engine Works.....	176	Aug. 16, 1917 ¹	25.0
T. Hellesoe.....	McDougall-Duluth Co.....	2	Feb. 4, 1917	70.0
Arth. H. Mathiesen.....	Albina Engine & Machinery Co.....	1	Apr. 18, 1917	60.1
Do.....	do.....	2	Apr. 25, 1917	59.9

¹ NOTE.—Summary of the status of construction on Aug. 3, 1917:
Number of keels not laid prior to Aug. 2, 1917..... 10
Average percentage of completion, material and labor..... 47.5
² Our records, Dec. 13, 1916, Robinson's letter, Feb. 14, 1919.

Mr. GILLEN. In reference to this transaction it has been reported—not reported, but rumored, there are many rumors afloat—that there was about \$1,000,000 of exchange made on the transaction.

The CHAIRMAN. That is, the difference between Norwegian money and American?

Mr. GILLEN. Norwegian money and our own? As to that I have no knowledge.

The CHAIRMAN. Did you have any knowledge as to whether these checks were drawn to the individual owners of these ships, or a lump-sum check of \$34,500,000 was drawn?

Mr. GILLEN. I understand it was a lump-sum check on our part. That is ascertainable also.

The CHAIRMAN. Is there anything in the record to indicate by whom these settlements were negotiated with the Shipping Board?

Mr. GILLEN. Yes, sir.

The CHAIRMAN. By whom were they negotiated?

Mr. GILLEN. The commissioner who had the most to do with it was Commissioner Ray Stevens. The counsel who worked on it was Robert A. Dean. The attorney, I understand, who attached all of the sessions on this matter, was Mr. Haight. He is a member of Haight, Sanford & Smith.

The CHAIRMAN. Of what city?

Mr. GILLEN. New York City.

The CHAIRMAN. They were attorneys for the claimants?

Mr. GILLEN. They were attorneys for the claimants. There is a letter, which I have seen in the files, by Commissioner Stevens in which he notifies the Norwegians of the second group, which I will

come to later and which was settled under Judge Payne's administration, that the Norwegians would be given the same consideration in the second settlement. However, that did not occur.

Now, let me go to the Japanese, which is the answer to the second. Another claim that was settled on July 18, 1918, just before Judge Payne came there, is known as the Japanese claims. Here again the same thing transpired, only to a smaller degree. They waived the principle established by Mr. Cotton and took over the contract. They are known as the requisitioning of Skinner & Eddy hull No. 9.

By contract dated July 3, 1917, Skinner & Eddy agreed to complete and to sell to Mitsui & Co. (Ltd.), of Tokyo, Japan, two cargo vessels (hull Nos. 8 and 9) for \$5,000,000 of which \$3,500,000 was paid and the balance was to be paid \$750,000 upon the completion of each vessel. This was approximately \$285 per ton.

On August 3, 1917, the date upon which both hulls were requisitioned, they were respectively reported by the builder to be 76 per cent and 47 per cent complete.

On August 7, 1917, Mitsui & Co. contracted to sell hull No. 8 (otherwise referred to as the steamer *Lieut. de Missiessy*) and the contract to the Compagnie Des Messageries Maritimes at a considerable profit. By an agreement dated October 3, 1917 (apparently based on the erroneous statement therein that the sale to the French company was prior to August 3, 1917), the Emergency Fleet Corporation conveyed the ship to the French company for a sum equal to the cost to the E. F. C., namely, \$750,000 plus extras and adjustments.

Hull No. 8: On September 19, 1917, Mitsui & Co. sold to the Compagnie Generals Transatlantique, at a profit of \$475,625 (according to Mitsui's claim, based upon the exchange on yen) subject to cancellation if transfer of flag should not be permitted. Transfer was not permitted, the sale was canceled, and the part payment made by Compagnie Generals Transatlantique returned.

Mitsui & Co. thereupon filed a claim with the board asking for the return of the \$1,750,000 paid on account, plus \$475,625 alleged loss of profit. By agreement of September 10, 1918, the Fleet Corporation paid to Mitsui & Co. \$900,000 on account.

Various proposals were made for the final settlement of this claim and finally on July 18, 1919, the executive committee of the Fleet Corporation passed the following resolution:

Whereas Mitsui & Co. (Ltd.), as the owner of hull No. 9, Skinner & Eddy Co., which was requisitioned in the course of construction by the order of the Emergency Fleet Corporation on August 3, 1917, has requested that an award of just compensation be made; and

Whereas a hearing has been held for the purpose of determining just compensation; and

Whereas it appeared at said hearing that the contract price was \$285 per ton; that the former owner has paid the Skinner & Eddy Co. prior to the date of requisition, \$1,750,000; and

Whereas by agreement, without prejudice, \$900,000 had already been paid on account; and

Whereas the Mitsui Co. is prepared to accept in full settlement of any claim or claims it has against the United States Shipping Board growing out of the requisition of said hull No. 9, building at the Skinner & Eddy Co., the sum of \$1,830,000, of which sum \$900,000 has already been paid on account: Now, therefore, be it

Resolved, That the executive committee of the trustees of the United States Shipping Board Emergency Fleet Corporation hereby determine as full settlement and satisfaction for the claim of Mitsui & Co., and for the hull and material requisitioned in

connection with hull No. 9, building at the Skinner & Eddy Co., the sum of \$1,830,000, of which said sum \$900,000 has already been paid on account, the balances of said sum consisting of \$930,000 to be payable upon the former owner executing such papers as may be required by the law department.

It is apparent from the foregoing that the settlement finally made by the Fleet Corporation with Mitsui & Co. was the reimbursement of the \$1,750,000 paid on account of the purchase price to Skinner & Eddy, plus \$80,000. There is no explanation in the discussion before the board justifying the payment of the \$80,000, but it is apparently intended to constitute interest on the advance made by Mitsui & Co. to Skinner & Eddy.

You will note that that settlement allows Skinner & Eddy to receive \$285 a dead-weight ton on those requisitioned contracts, because he had a contract to purchase it at a high price. In other words, in this case they again passed over the rule that was laid down in England, and the rule that was laid down by Cotton and perfected. In other words, this company received from the Shipping Board a notification that it would take over their material and the ship as far as constructed, and they passed over that and settled on the basis that this man could profiteer.

The CHAIRMAN. What was the contract price in this case?

Mr. GILLEN. Two hundred and eighty-five dollars a dead-weight ton, according to the record.

The CHAIRMAN. And that is the basis of settlement?

Mr. GILLEN. That is what they finally paid them; when they got through with the transaction it was settled on that basis.

The CHAIRMAN. Rather than on the basis of what had actually been paid?

Mr. GILLEN. In that particular case, if the Japanese had paid him on account \$1,875,000, or whatever the item was, then we would charge that to Skinner & Eddy, and all we would give Skinner & Eddy as a credit would be what we found in the yards, and we would then have an outstanding credit against Skinner & Eddy.

The CHAIRMAN. Is there anything in the records to show who negotiated that settlement?

Mr. GILLEN. No; but I think the attorney who had charge of these particular settlements before Judge Payne came in there, afterwards became for a short time the acting general counsel—Robert A. Dean. I want to say here in the record that Mr. Dean is an honest man, a fine gentleman, but he has no resistance—and there is no criticism of him. He has worked hard, he has been industrious while he has been there, but he has never gotten the big underlying principles that control the claims, and the result is that these men have been able to get on up.

The CHAIRMAN. Did the claimants in this case have an attorney? Do you know?

Mr. GILLEN. Yes, sir; but I do not know who they were.

The CHAIRMAN. Were there any other claims settled prior to that principle or rule established by Mr. Cotton?

Mr. GILLEN. That I do not know, but it will be very easy for this committee to ask from the secretary of the Shipping Board and the Emergency Fleet Corporation, Mr. Flaherty, a list of the settlements that have been effected.

The CHAIRMAN. I am asking you if there were any other settlements which you have looked into. You have apparently looked into these two, Mr. Gillen.

How did you come to have an audit made of the amount of materials, labor expenses, and the per cent of completion after the requisition order was put into effect and after you came to the board? What was the necessity for that? Had not that been done before?

Mr. GILLEN. It had not been done before. They had never audited it out, and they were dealing with the corporate funds and making settlements without having any records on the part of the Fleet Corporation upon which to determine what was due from the standpoint of the Government. Judge Payne was very strict, and he held up those settlements until he could set up the machinery to get the facts upon which to make the settlements.

The CHAIRMAN. Well, was there any audit or examination made to determine the amount of materials which had been purchased by the Fleet Corporation, and distributed to the districts?

Mr. GILLEN. Whenever a claim would come out the auditors would go out and try to make an audit on each yard, because the books of the corporation would not permit them to get any reflections upon their own books. Col. Abadie reports in reference to that, that on July 31, 1919, there was \$508,481,111 of undistributed expenditures in the districts, and \$53,196,000 in the home office. That makes a sum total of \$562,000,000.

Now, he means by that that the Emergency Fleet Corporation would buy steel, lumber, engines, and equipment for the contracts for boats, and this material would be issued, under order of the Emergency Fleet Corporation, to the different shipyards of the country. The Fleet Corporation would pay for those. Consequently it was necessary to make a charge against the contractor for the delivery of this material. At the time Judge Payne arrived there, there was \$562,000,000 of those purchases that had never been distributed down through the districts and charged to the contractors. I understand that distribution is well along, but how far I can not tell you.

Now, that is an accounting proposition. As the Emergency Fleet Corporation would make these big contracts for steel and for lumber and for supplies, it would create inventories in the yards of contractors, or in districts, where it had its supplies. No inventory has ever been made and carried into the books of the corporation so that a charge for material would be made against ship contractor where they contract for 10 ships, for the materials that he received or the equipment that he received, and no continuing inventory has ever been kept so that you could charge him, first, with that which you sent in the yard to him and give him credit for that which he used in the ships, and then know what was left and the amount of it. That item, it has been estimated, runs to about \$300,000,000. As to that he does not comment.

The CHAIRMAN. That is contained in the report of some official of the Shipping Board?

Mr. GILLEN. I do not find it here, but it is in the record——

The CHAIRMAN. These figures that you have given us—are they in some report of some official of the board?

Mr. GILLEN. That estimate of the inventory is in an official report made after an examination.

The CHAIRMAN. By whom?

Mr. GILLEN. I believe it is in the report of Mr. Raymond Weins, which I tried to get hold of but could not find—I will get it later—where he analyzes supplies and sales; that is, materials on hand at the present time, showing the inventory around the country not on our records.

We started an inventory drive in February, with a Mr. De Field at the head of it, and he put in about two or three months getting the records up, and he planned to get the materials inventoried on our books.

The CHAIRMAN. What method was adopted with reference to requisitioned upon the high seas?

Mr. GILLEN. I have not quite completed this testimony, Mr. Chairman, if I may make the record clear.

The CHAIRMAN. Oh, certainly.

Mr. GILLEN. I want to cover the matter of the accounting before I go over to that other subject.

The purpose of this examination of the Stray group and the Christiania group was to find out what was transpiring in reference to the other claims. Now, as to the second set of Norwegian claims, known as the Christiania group, there were 15 ships in that group, which was their second claim. They set up a claim of \$14,157,977, and when we gave them the Cotton rule, which was applied to all American shipbuilders, the award made to them was \$2,506,387, as against their claim of \$14,157,000. That was the claim with reference to which Commissioner Stevens wrote them that they would receive the same consideration in connection with this claim as in connection with the other.

The CHAIRMAN. Was the settlement made on the basis of that award?

Mr. GILLEN. They had not accepted it; they had gone to the State Department, and the State Department had notified them that there is no question of treaty and that as they are doing business in this country they must accept the same rule as we apply to American citizens. Secretary Colby has made that ruling.

The CHAIRMAN. Who in the Shipping Board has the records with respect to the Stray group and the Christiania group?

Mr. GILLEN. They would be in our general files.

The CHAIRMAN. In what department?

Mr. GILLEN. We have a regular department of general files.

Here is a tabulation of the claims in the Christiania group.

The CHAIRMAN. That contains a list of the 15 ships in the Christiania group?

Mr. GILLEN. Yes, sir.

The CHAIRMAN. That will be inserted in the record.

(The tabulated statement referred to is here printed in full, as follows:)

**REPORT OF REQUISITION CLAIMS COMMITTEE UNITED STATES SHIPPING BOARD,
EMERGENCY FLEET CORPORATION.**

[In re claims for award of just compensation to (a) Compagnie Generale Transatlantique, (b) Compagnie des Chemins de Fer de Paris a Lyon et a la Mediterranee de l'Etat, (c) Compagnie des Chemins de Fer Algerienne de l'Etat, representing the Republic of France.]

FINDINGS OF FACT.

1. On August 3, 1917, these claimants, namely, Compagnie Generale Transatlantique (the General Transatlantic Company), Compagnie des Chemins de Fer de Paris a Lyon et a la Mediterranee de l'Etat (Paris, Lyons & Mediterranean State Railways Company) and Compagnie des Chemins de Fer Algerienne de l'Etat (Algerian State Railways Company), as agents for the French Government, had certain contracts for ship construction (originally executed by them as purchasers or acquired under assignments) with various American shipbuilding companies, as follows:

Date of contract.	Builder's hull No.	Contracting parties.		Contract price.
		Builder.	Purchaser.	
<i>Contracts held by Compagnie Generale Transatlantique.</i>				
Oct. 21, 1916.....	6	Ames Shipbuilding and Dry Dock Co.	Hannevig Bros.....	\$1,046,000
Do.....	8	do.....	do.....	1,046,000
Aug. 30, 1916.....	81	Baltimore D. & S. Co.....	Gustave B. Bull.....	744,000
Sept. 25, 1916.....	83	do.....	Marine Securities Co.....	1,085,000
Do.....	84	do.....	do.....	1,085,000
June 13, 1917.....	87	do.....	Garland Shipbuilding Co.....	1,096,000
Aug. 21, 1916.....	352	Chester Shipbuilding Co.....	C. Hannevig.....	1,024,000
Do.....	353	do.....	do.....	1,024,000
July 21, 1917.....	4	McDougall-Duluth Co.....	Compagnie Generale Transatlantique.	635,500
Do.....	5	do.....	do.....	635,500
Do.....	6	do.....	do.....	635,500
Do.....	7	do.....	do.....	635,500
Do.....	8	do.....	do.....	635,500
July 5, 1917.....	18	Northwest Steel Co. per Columbia River Shipbuilding Co.	do.....	1,672,000
Do.....	10	do.....	do.....	1,672,000
Do.....	16	Duthie, J. F., & Co.....	do.....	1,672,000
Do.....	20	do.....	do.....	1,672,000
Do.....	9	Willamette I. & S. Co.....	do.....	1,672,000
Do.....	10	do.....	do.....	1,672,000
Do.....	11	do.....	do.....	1,672,000
Do.....	12	do.....	do.....	1,672,000
July 13, 1917.....	13	do.....	do.....	1,650,000
Do.....	14	do.....	do.....	1,650,000
Do.....	15	do.....	do.....	1,650,000
Do.....	16	do.....	do.....	1,650,000
Aug. 11, 1916.....	93	Seattle Construction & Dry Dock Co.	do.....	877,000
July 21, 1916.....	5	Standard Shipbuilding Co.....	Sigvard Rasmussen.....	890,000
<i>Contract held by Paris, Lyons & Mediterranean Railways Co.</i>				
Feb. 14, 1916.....	109	Great Lakes Engineering Co..	Gaston, Williams & Wigmore.	480,000
<i>Contracts held by Algerian State Railways Co.</i>				
Feb. 14, 1916.....	168	Great Lakes Engineering Co..	Gaston, Williams & Wigmore.	480,000
May 22, 1916.....	172	do.....	Christoffer Hannevig.....	340,000
Do.....	173	do.....	do.....	340,000

¹ E. F. C. 1647.

² E. F. C. 1649.

2. On August 3, 1917, the keels had been laid for only seven of the thirty-one (31) vessels provided for in the above-mentioned contracts, namely:

- No. 81 (Baltimore) (keel laid May 29, 1917).
- No. 168 (Great Lakes) (keel laid Feb. 8, 1917).
- No. 169 (Great Lakes) (keel laid Apr. 30, 1917).
- No. 172 (Great Lakes) (keel laid Apr. 21, 1917).
- No. 93 (Seattle) (keel laid May 28, 1917).
- No. 5 (Standard) (keel laid May 26, 1917).

Two vessels, namely, hull Nos 168 and 172 (Great Lakes) had been launched (on July 11, 1917, and July 27, 1917, respectively) and one vessel—hull No. 169 (Great Lakes)—was ready for launching (launched Aug. 11, 1917). The percentage of completion of these three vessels, computed by Mr. G. M. Brill, consulting engineer employed by the Emergency Fleet Corporation, was as follows:

Hull No. 168, 81.8 per cent; hull No. 169, 68.9 per cent; hull No. 172, 81 per cent.

Certain materials used in and applicable to the above construction and also certain materials applicable to the construction of some of the other prospective vessels under the above-mentioned contracts had been assembled, and certain labor had been performed thereon. The title to these materials and partially constructed vessels was in the respective claimants to the extent to which they (or their assigners) had made progress payments to the shipbuilders under their contracts.

The cost of the materials thus assembled and in part constructed (including labor and expense in connection therewith) based on reports of the Ship Construction Division of the Emergency Fleet Corporation and of Mr. G. M. Brill, consulting engineer, is found to be set forth in the following table, which gives, in addition, a description of the vessels called for in the several contracts and shows the progress payments made by the claimants (and their assigners) to the shipbuilders and the extent, if any, to which these payments exceeded the cost of the property on hand in the shipyards on August 3, 1917, belonging to the claimants and requisitioned by the Emergency Fleet Corporation.

Hull No.		Type.	Specified tonnage.	Cost of materials taken from claimants Aug. 3, 1917.	Progress payments by former owners.	Excess of progress payments over material cost
	Cla. Gen'l Trans					
6	Ames	Carzo	8,800	\$15,048.25	\$104,600.00	\$89,551.75
8	Do	do	8,800	13,410.56	104,600.00	91,189.45
81	Balt'more	do	6,700	356,276.00	595,200.00	238,924.00
83	Do	do	7,200	27,125.00	108,400.00	81,275.00
84	Do	do	7,000	27,125.00	108,500.00	81,375.00
87	Do	do	7,000	119,660.00	119,660.00	
352	Chester	do	1,000	(1)	103,840.00	103,840.00
353	Do	do	1,000	(1)	103,840.00	103,840.00
4	McDougall	do	3,000	3,000.00	63,550.00	60,550.00
5	Do	do	3,000	3,000.00	63,550.00	60,550.00
6	Do	do	3,000	3,000.00	63,550.00	60,550.00
7	Do	do	3,000	3,000.00	63,550.00	60,550.00
8	Do	do	3,000	3,000.00	63,550.00	60,550.00
10	Columbia	do	6,688	6,688.00	334,400.00	327,712.00
16	Do	do	6,688	6,688.00	334,400.00	327,712.00
20	Duthie	do	24,295	24,295.00	334,400.00	310,105.00
9	Do	do	21,550	21,550.16	334,400.00	312,849.84
10	Willamette	do	20,064	20,064.00	334,400.00	314,336.00
11	Do	do	20,064	20,064.00	334,400.00	314,336.00
12	Do	do	(1)	(1)	334,400.00	334,400.00
13	Do	do	(1)	(1)	334,400.00	334,400.00
14	Do	do	(1)	(1)	165,000.00	165,000.00
15	Do	do	(1)	(1)	165,000.00	165,000.00
16	Do	do	(1)	(1)	165,000.00	165,000.00
93	Seattle	do	7,000	219,375.00	219,375.00	
5	Standard	do	7,000	333,780.00	682,333.29	348,553.29
					9	4,677,179.33
	Cla. Algeriennes, etc.:					
168	Great Lakes	do			0	34,465.00
172	Do	do			0	16,600.00
173	Do	do			0	75,866.00
					0	126,941.00
	Cla. Paris, L. M., etc.:					
100	Great Lakes	do			0	43,530.00
					0	43,530.00

1 None.

3. The increase as of August 3, 1917, in the value of the above-mentioned property, including the factor of indirect and incidental expense in connection therewith, is fixed as follows:

Builder's No.	Increase in value of property as of Aug. 3, 1917.	Builder's No.	Increase in value of property as of Aug. 3, 1917.
<i>Compagnie Generale Transatlantique.</i>		<i>Compagnie Generale Transatlantique—Continued.</i>	
6 (Ames).....	\$3,009. 65	13 (Willamette).....	(1)
8 (Ames).....	2,682. 11	14 (Willamette).....	(1)
81 (Baltimore).....	71,275. 20	15 (Willamette).....	(1)
83 (Baltimore).....	5,425. 00	16 (Willamette).....	(1)
84 (Baltimore).....	5,425. 00	93 (Seattle).....	\$43,875. 00
87 (Baltimore).....	23,923. 00	5 (Standard).....	66,750. 00
352 (Chester).....	(1)		
353 (Chester).....	(1)	Total.....	245,243. 79
4 (McDougall).....	600. 00	<i>Compagnie Algerienne, etc.</i>	
5 (McDougall).....	600. 00	168 (Great Lakes).....	571,045. 80
6 (McDougall).....	600. 00	172 (Great Lakes).....	402,570. 00
7 (McDougall).....	600. 00	173 (Great Lakes).....	28,828. 80
8 (McDougall).....	600. 00	Total.....	1,002,444. 60
8 (Columbia).....	1,337. 60	<i>Compagnie Paris, L. M., etc.</i>	
10 (Columbia).....	1,337. 60	169 (Great Lakes).....	479,544. 00
16 (Duthie).....	4,859. 00		
20 (Duthie).....	4,310. 03		
9 (Willamette).....	4,012. 80		
10 (Willamette).....	4,012. 80		
11 (Willamette).....	(1)		
12 (Willamette).....	(1)		

1 None (no materials).

4. The Emergency Fleet Corporation, on August 3, 1917, requisitioned the above-mentioned vessels and materials for vessels from the claimants.

5. The respective claimants and their assignors, prior or subsequently to August 3, 1917, paid to the shipbuilding companies as progress payments the sums set forth in column 5 of the table in paragraph 2 above. Such payments exceeded the amounts represented by cost of materials assembled (including labor thereon) by the respective amounts set forth in column 6 of said table.

6. The Emergency Fleet Corporation has heretofore made provisional payments, on account of its requisitioning of the above-mentioned property, of the following amounts:

Builder's hull No.	Date.	Amount.	Total.
<i>To Compagnie des Chemins de Fer Algerienne de l'Etat.</i>			
168 (Great Lakes).....	On or about Jan. 4, 1918.....	\$700,000	\$800,000
168 (Great Lakes).....	On or about Feb. 5, 1918.....	100,000	
172 (Great Lakes).....	On or about Jan. 4, 1918.....	400,000	600,000
172 (Great Lakes).....	On or about Feb. 5, 1918.....	200,000	
173 (Great Lakes).....	On or about Jan. 4, 1918.....	400,000	600,000
173 (Great Lakes).....	On or about Feb. 5, 1918.....	200,000	
			2,000,000
<i>To Compagnie des Chemins de Fer de Paris & Lyon et la Mediterranee de l'Etat.</i>			
169 (Great Lakes).....	On or about Jan. 25, 1918.....	500,000	1,000,000
169 (Great Lakes).....	On or about Feb. 5, 1918.....	500,000	

With these exceptions the Emergency Fleet Corporation has not paid the costs of the property taken from the claimants under its requisitioning orders and set forth in column 4, paragraph 2 above, nor the increase in the value thereof set forth in paragraph 3 above, nor refunded the progress payments heretofore made to the shipbuilders by the claimants and their assignors, as set forth in column 6 of paragraph 2 above.

7. The Emergency Fleet Corporation did not requisition the ship construction contracts between the above-mentioned shipbuilding companies and the claimants (or their assignors), but did requisition the partially constructed vessels and the materials on hand applicable to ship construction and belonging to the claimants. Independently of its requisition orders, in August, 1917, it did offer to all shipbuilders and to all owners as of August 3, 1917, including the present claimants (and others in like position) to make reimbursement for all progress payments made by former owners prior or subsequently to August 3, 1917. The Emergency Fleet Corporation has always stood ready and willing to reimburse former owners for the progress payments made by them prior or subsequently to August 3, 1917, as well as to make full compensation for the property actually taken by the Emergency Fleet Corporation to the parties entitled thereto as their interests might appear.

Award of compensation.

We hereby award as the just compensation for the property belonging to the respective claimants and requisitioned by the Emergency Fleet Corporation under its requisition orders of August 3, 1917, the following:

To Compagnie Generale Transatlantique.....	\$1, 471, 462. 75
To Compagnie des Chemins de Fer Algerienne de l'Etat.....	1, 814, 628. 60
To Compagnie des Chemins de Fer de Paris a Lyon et a la Mediter- ranee.....	810, 264. 00
	<hr/>
	4, 096, 355. 35

And awards are made accordingly.

As set forth above in the findings of fact, paragraph 6, the Emergency Fleet Corporation has heretofore made provisional payment to Compagnie des Chemins de Fer Algerienne de l'Etat of \$2,000,000 and to Compagnie des Chemins de Fer de Paris a Lyon et a la Mediterranee de l'Etat of \$1,000,000, which sums exceed the amount of the awards herein made to these two companies. The amount of the overpayments should be reduced by the application of the balance of progress payments made by the two companies, respectively, to the shipyard in excess of the cost of materials requisitioned as hereinabove shown in paragraph 2, and the amount of the overpayment then remaining should be liquidated by deducting the same from the award hereinabove made to Compagnie Generale Transatlantique, inasmuch as all these claimants represent a single principal, namely, the Republic of France. The result will be as follows:

Chemins de Fer Algerienne, etc.:

Provisional payment by Emergency Fleet Corporation	\$2, 000, 000. 00
Less award of compensation.....	1, 814, 628. 60

185, 371. 40

Less progress payments in excess of cost of material...	126, 941. 00
---	--------------

\$58, 430. 40

Chemins de Fer de Paris, etc.:

Provisional payment by Emergency Fleet Corpora- tion.....	1, 000, 000. 00
Less award of compensation.....	810, 264. 00

189, 736. 00

Less progress payments in excess of cost of material..	43, 530. 00
--	-------------

146, 206. 00

Balance of overpayment to be deducted from award to Com-
pagnie Generale Transatlantique.....

204, 636. 40

Compagnie Generale Transatlantique:

Amount of award.....	1, 471, 462. 75
----------------------	-----------------

Less balance of overpayment to Chemins de Fer Algerienne and Chemins de Fer de Paris, etc.....	204, 636. 40
---	--------------

Balance due to satisfy awards..... 1, 266, 826. 35

As shown by the foregoing calculation, the net amount to be paid in satisfaction of all the above awards is thus the sum of \$1,266,826.35.

REFUND OF PROGRESS PAYMENTS.

We recognize the further right of the claimant Compagnie Generale Transatlantique to the refund by the Emergency Fleet Corporation of the progress payments heretofore made to the shipbuilders by that company and its assignors in excess of the sum of \$1,226,218.96 (the total material and labor cost included in the above award of compensation to the Compagnie Generale Transatlantique), viz, \$4,677,179.33.

E. M. WEAVER,
H. H. ROUSSEAU,
R. A. DEAN,
Requisition Claims Committee.

Made this 17th day of December, 1919.

CERTIFICATE OF GENERAL COMPTROLLER, UNITED STATES SHIPPING BOARD, EMERGENCY FLEET CORPORATION.

1. I hereby certify that the records of my office show that the progress payments, as shown in paragraph No. 2 of the attached report of the Requisition Claims Committee of the Emergency Fleet Corporation, dated December 17, 1919, totaling as follows:

Claimant.	Amount.
Compagnie Generale Transatlantique.....	\$5, 903, 398. 29
Compagnie des Chemins de Fer de Paris, etc.....	374, 250. 00
Compagnie des Chemins de Fer Algerienne, etc.....	939, 125. 00
Total.....	7, 216, 773. 29

made by the former owners, as noted under paragraph No. 1 to the shipbuilding companies, as noted under paragraph No. 2, have not previously been reimbursed by the Emergency Fleet Corporation, except those which may have been included in the settlement made with former owners in connection with the following hulls:

Hull No.	Builder.	Amount.
169.....	Great Lakes Engineering Co.....	\$1, 000, 000. 00
168.....	do.....	666, 666. 66
172.....	do.....	666, 666. 67
173.....	do.....	666, 666. 67
		3, 000, 000. 00

2. The shipbuilding companies have certified to us in sworn statements or we have otherwise satisfied ourselves that they have given the Emergency Fleet Corporation credit for the former owner payments noted above.

3. In connection with hull No. 93, built by the Seattle Construction & Dry Dock Co., and hull No. 5, built by the Standard Shipbuilding Co., there are escrow accounts amounting, respectively, to \$131,625, deposited with the National Bank of Commerce, New York, and \$133,500, deposited with the Guaranty Trust Co. of New York. We have satisfied ourselves that the escrow deposits are not included in the former owner payments shown above. In the case of the deposit of \$131,625 the Seattle Construction & Dry Dock Co. state that their interest in the account was assigned to the Emergency Fleet Corporation at the time the vessel was delivered.

E. H. ABADIE,
*General Comptroller, United States Shipping Board,
Emergency Fleet Corporation.*

Mr. GILLEN. Now, there is a third claim that is settled. I have not the working details. That third one is the Italian claim. I can give you the approximate figures and you can get them exactly afterwards.

In the Italian claims there are two ships. The aggregate claim was about \$3,300,000, and the award made by us was approximately \$700,000. That case has also been over to the State Department, and the State Department again has ruled the same as it has in the other cases.

The CHAIRMAN. Is that claim settled?

Mr. GILLEN. They have not accepted settlement, but we have made definite the liability, and the State Department has refused to intercede. Consequently they must go to the courts if they want to get any relief.

Now, we set up in Washington, after we began to get this information together, a Requisition Claims Board, consisting of Gen. Weaver, an Army officer; Admiral Rousseau, and Mr. Dean, and we set up a night organization, consisting of Mr. Beck and Mr. Clark, to get all of this information together. I believe all the requisition cases now have been determined, with the possible exception of one or two or three. In other words, the awards are all made on the 401 boats, and they are cleaned off the boards.

The CHAIRMAN. And the records are there?

Mr. GILLEN. The records are there in Washington.

Now, another claim that falls under this same list is the case that is very famous in Washington, known as the Pusey & Jones case. There was presented to Judge Payne on August 28, 1919, shortly after he came there, a prospective settlement of the Pusey & Jones case. It involved 45 contracts.

The CHAIRMAN. On requisition as ships?

Mr. GILLEN. On requisition as ships and contracts that were afterwards put in the yards of Pusey & Jones, they having two building yards. Judge Payne held it up and required that an investigation be made of the situation before it should be put through. It was a matter that they had had up back and forth there, and it was practically settled.

An analysis was made of that situation, and we found that we had purchased from Cunard & Co., who represented the British Government, about \$94,000,000 worth of contracts, on which they had paid money in this country. In other words, Cunard, representing the British Government, had spent about \$94,000,000 in this country before we went to war on certain commitments for the British Government. Under an arrangement that was made the British Government stepped out of it and we took her place, paying her just what she had invested in these contracts, and took the contracts over.

We found that one Christoeffer Hannevig had made contracts with the Cunard company for a number of these ships that we took over and we found that Cunard had paid him on account of contracts, as progress payments, approximately \$3,700,000. When we discovered that, we said: "We have bought these contracts from Cunard, and paid them \$94,000,000—Pusey & Jones and many others——"

The CHAIRMAN. Just a minute. When you say you had bought the contracts from Cunard, do you mean that you had not requisitioned the ships, that there was some different transactions?

Mr. GILLEN. That was the British Government itself. All these others are merely foreign claimants. So the State Department, I imagine, laid down the rule that where it was another Government we could not take its property. The Cunard company was the agent for the Government—like the Emergency Fleet in this country—and we found that Hannevig had been paid \$3,700,000 and odd, on account of contracts that the Cunard company had in this country and which we purchased. We stood in the shoes of Cunard in that particular case, and I think it is the only case on record where we bought con-

tracts and contractual rights, because we are dealing with a Government. We set up a charge to Hannevig of \$3,700,000 as a payment that had been made to him by Cunard. As we stood in Cunard's shoes, and having paid that on account of the \$94,000,000, we made that charge against him. That has gone through the records there, and the award has been made on that particular matter. They have not accepted it, but it is in principle the same as the others.

The CHAIRMAN. Do you know whether any suit is pending over this matter?

Mr. GILLEN. There is not as yet.

At this time, having read a great deal of the testimony that has been taken here, and the criticisms that have been made, permit me in the midst of all these large transactions that are passing over the board here to call your attention to this. When Judge Payne took hold of that position down there he endeavored first to establish a big principle to govern each big transaction, and not to trade individually. Second, he went out to get the records of the corporation in harmony with that big transaction. Third, he went out to chart each big transaction—there is a transaction of 45 ships—so that when he himself had these matters up before him he would be able to pass on them quickly. In other words, he went out to build up the records of the corporation so that judgment and decision might be made on the records.

The CHAIRMAN. Is that sheet that you have just passed over the chart of the Pusey & Jones transaction?

Mr. GILLEN. That is the sheet of the Pusey & Jones transactions, plus the Pusey & Jones award. Instead of passing a resolution through, we adopted the practice of making an award in which we set forth all the facts, with a sheet like that, to the Emergency Fleet, so that if afterwards they get the claims the record is made up and completed.

You will notice that the Mitsui matter was just a short resolution. That is the form in which the French claims and all the other big claims are made up.

(The chart and the accompanying report thereon, with reference to the Pusey & Jones claims, are here printed in full, as follows:)

	Chr. Hannevig	Sept. 19, 1916	Cunard Steamship Co.	Mar. 20, 1917	\$760,000	\$170,000	\$170,800	\$236,000.00	\$485,974.14	\$891,974.14	\$131,974.14	(1)
1001	do.....	do.....	do.....	do....	720,000	130,000	130,000	236,000.00	554,103.77	920,103.77	200,103.77	(1)
1002	do.....	do.....	do.....	do....	690,000	110,000	110,000	171,000.00	645,508.53	926,508.53	248,508.53	(1)
1003	No contract	do.....	No contract	Mar. 18, 1917	690,000	90,000	90,000	171,000.00	733,165.61	994,165.61	334,165.61	(1)
1004	do.....	do.....	do.....	Mar. 15, 1917	700,000	140,000	140,000	56,000.00	812,413.87	1,008,413.87	308,413.87	(1)
1005	do.....	do.....	do.....	Mar. 27, 1917	700,000	140,000	140,000	56,000.00	732,748.94	928,748.94	228,748.94	(1)
1006	do.....	do.....	do.....	do....	700,000	140,000	140,000	56,000.00	1,066,266.45	1,270,666.45	518,166.45	(1)
1007	do.....	do.....	do.....	May 7, 1917	752,500	143,500	143,500	60,900.00	900,482.25	1,104,882.25	352,382.25	(1)
1008	do.....	do.....	do.....	do....	752,500	143,500	143,500	60,900.00	891,969.87	936,294.87	109,784.87	(1)
1009	Bulk Oil Transportation (Inc.)	May 12, 1917	Bulk Oil Transportation	May 12, 1917	826,500	..	..	41,325.00	891,969.87	936,294.87	109,784.87	(1)
1010	do.....	June 12, 1917	do.....	June 12, 1917	804,750	..	..	40,237.50	785,451.21	825,688.71	20,938.71	(1)
1011	do.....	do.....	do.....	do....	804,750	..	..	40,237.50	816,298.06	856,535.56	148,218.44	73.5
1012	do.....	do.....	do.....	do....	783,000	..	..	39,150.00	492,214.30	538,364.30	44,635.70	60.5
1013	do.....	do.....	do.....	do....	783,000	..	..	39,150.00	408,190.70	444,340.70	38,659.80	31.5
1014	do.....	do.....	do.....	do....	781,250	..	..	38,062.50	310,646.80	348,709.30	418,540.70	19.7
Total	Total.....	..	..	..	..	1,067,000	1,067,000	1,285,962.50	9,442,427.50	11,795,390.00	{2,451,182.14 1,144,068.14}	....
Grand total	Grand total.	..	..	..	..	5,627,000-5	5,627,000-5	5,035,462.50	33,137,908.94	43,900,369.44	{9,761,460.94 6,508,537.02}	....

Delivered.
#1 canceled.

†1 canceled.

NOTE 1—Figures in italics in column "Excess over contract prices, Aug. 3, 1917," indicate tonnage instead of excess, accounted for by fact that vessels are not yet or have been canceled.

NOTE 2.—Contract dates and prices are from original sources.

NOTE 3. Hulls listed "No contract" were Hannevig's informal orders.

NOTE 4.—As to Pennsylvania hulls Nos. 15 to 19, inclusive, Emergency Fleet Corporation agreed to pay cost plus \$201,000 per vessel. As to New Jersey hulls Nos. 201 to 212, inclusive, Emergency Fleet Corporation agreed to pay cost plus \$17.50 per ton

NOTE 5.—Amounts advanced by Emergency Fleet Corporation are as of September 30, 1919 (figures of Comptroller Adamson, division of construction, Emergency Fleet Corporation).

NOTE 6.—State of completion of vessels under construction is of October 15, 1919 (report, district manager, Delaware district).

[illegible]

There should be added undistributed advances of	987,711 05	
<hr/>		
\$34,125,617 99		
+ 131,228 09		

UNITED STATES SHIPPING BOARD,
Washington, October 22, 1919.

Memorandum for the Chairman.

Subject: The Pusey & Jones and Christoffer Hannevig situation.

By your direction we have given careful study to the existing relations between the Pusey & Jones Co. and other Hannevig interests and the Emergency Fleet Corporation, and herewith submit our report.

I. CONSTRUCTION PROGRAM OF THE PUSEY & JONES YARDS ON AUGUST 3, 1917.

The Pusey & Jones Co., a corporation of Delaware, is the owner of three shipyards, one at Wilmington, Del., and two at Gloucester City, N. J. The company is a consolidation, effected on or about December 21, 1917, of three predecessor companies which, like the present company, were owned and controlled by Christoffer Hannevig. They were the Pennsylvania Shipbuilding Co., Gloucester City, N. J.; the New Jersey Shipbuilding Co., Gloucester City, N. J.; Pusey & Jones Co., Wilmington, Del.

At the date of the Government's requisitioning orders Hannevig had recently converted the Pusey & Jones yard at Wilmington (formerly adapted only for yachts, tugs, etc.) into a yard for the construction of small cargo vessels. He had recently organized the Pennsylvania Shipbuilding Co. and its yard was in course of construction. He had also organized the New Jersey Shipbuilding Co., but its yard, adjoining that of the Pennsylvania Co. at Gloucester City, N. J., was as yet merely a project.

Prior to the requisitioning orders Hannevig had committed these three yards to a construction program of 45 vessels, aggregating 312,900 dead-weight tons, distributed as shown in the following table:

Distribution of construction.

Yard.	Type.	Tonnage.	Total.
Pennsylvania (19):			
Hulls, 1 to 6.....	6, 7,000 tanker.....	42,000	
Hulls 13 and 14.....	2, 7,500 cargo.....	15,000	
Hulls 7 to 12 and 15 to 19.....	11, 12,500 cargo.....	137,500	194,500
New Jersey (12):			
Hulls 201 to 212.....	12, 5,000 cargo.....		60,000
Wilmington (14):			
Hulls 1001 to 1005.....	6, 4,000 cargo.....	24,000	
Hulls 1007 to 1014.....	8, 4,350 cargo.....	34,400	58,400
Total.....			312,900

These respective vessels were all covered by formal contracts with the exception of nine, as to which there was only Hannevig's informal order.

Hannevig was not only the prospective builder of the vessels (through the Pusey & Jones predecessor companies), but also practically dealt as the purchaser of them (i. e., either personally or through his corporate "dummies" bulk oil Transports (Inc.), and Manass Steamship Corporation, or through his Norwegian associates).

An exhibit is attached, marked Exhibit A, which shows (1) the original contract owners of the 45 vessels, and (2) the owners as of August 3, 1917. As shown by the exhibit, 17 of the original contracts were placed by Hannevig personally (8 by formal contract and 9 by informal order), 15 by the Bulk Oil Transports (Inc.), and 8 by Manass Steamship Corporation. The remaining five contracts were placed by various Norwegians as the nominal purchasers (whether bona fide or not does not appear); they also were controlled by Hannevig, either as the purchaser in fact, which he in some instances represented himself to be, or by him as the professed agent of the nominal owner.

By August 3, 1917, Hannevig had sold 18 of the prospective vessels—17 to the Cunard Steamship Co. (Ltd.), namely, Pennsylvania hulls Nos. 1 and 3 to 10, inclusive (9 vessels), and Wilmington hulls Nos. 1001 to 1008, inclusive (8 vessels), and one to the Continental Transportation & Oil Co., namely, Pennsylvania hull No. 2. In effecting these transfers, Hannevig in some instances boosted the original contract prices by procuring the cancellation of the original contract and the execution of a new one in its place between the shipyard and his vendee, in which new contract an enhanced price was stipulated for the vessels. In such instances the new owner paid the difference in the price directly to the shipyard as a part payment on the

vessel, and Hannevig then took this money from the company and diverted it to his own use. In other instances he left the original contract price unchanged, in which cases he took the consideration for the assignment directly from the new owner and kept the money so taken. The money thus taken by Hannevig properly constituted a part of the capital assets of the shipbuilding companies, to be used by them in the performance of their contract obligations.

II. RIGHTS ACQUIRED BY THE FLEET CORPORATION: A., BY REQUISITIONING ORDERS; B. BY SUBSEQUENT AGREEMENTS; C, BY PURCHASE FROM CUNARD CO., (LTD.).

A. *Rights under requisitioning orders.*—The Fleet Corporation on August 3, 1917, issued its general requisitioning orders, and it thereby became entitled, as a matter of law, to have the construction program of the Pusey & Jones yards (or so much thereof as it desired) completed for its account. By virtue of these orders, it also became obligated (a) to pay to the persons entitled thereto just compensation for the property requisitioned, and (b) to make just compensation for the further work ordered to be done for its account.

B. *Subsequent agreements.*—The only agreements of the Fleet Corporation (except as to increased wage scales, etc.) subsequently modifying the obligation arising by law as a result of the requisition orders relate to Pennsylvania hulls Nos. 15 to 19, inclusive—informal orders placed by Hannevig—and New Jersey hulls Nos. 201 to 212, inclusive, consisting of eight vessels under contract to Manass Steamship Corporation and four vessels informally ordered by Hannevig. They were embodied in correspondence passing between the officials of the Fleet Corporation and the builders, a copy of which is attached, marked Exhibit B. By these agreements the Fleet Corporation undertook, as to the 5 Pennsylvania hulls, to pay the builder the cost of construction, plus \$204,000 per vessel, and with respect to the 12 New Jersey hulls, to pay the builder the cost of construction, plus \$17.50 per ton—the cost of construction to include in each case a factor of depreciation. In each case the agreement provided that if the cost fell below a stipulated amount the builder and the Fleet Corporation were to share equally in the saving.

C. *Rights acquired from Cunard Co. (Ltd.).*—The Fleet Corporation has also acquired, by assignment from the Cunard Co., the rights which that company had under its contracts for 17 of the vessels to be constructed at the Pusey & Jones yards, which rights entitle the Fleet Corporation, as hereinafter more particularly shown, to apply as a part payment on these vessels the sums which Hannevig took, upon the transfer of the vessels to the Cunard Co., and diverted from the capital assets of the shipyards.

III. PRESENT CONSTRUCTION PROGRAM.

Since August 3, 1917, the Fleet Corporation has canceled 60,000 tons of construction, namely, Pennsylvania hulls 13 and 14, of 7,500 tons each, and New Jersey hulls 204 to 212, inclusive, of 5,000 tons each, leaving the construction program 252,900 tons.

The state of completion of this program (as of Oct. 15, 1919) is as follows:

	Vessels.	Tons.
Tonnage originally contemplated.....	45	312,900
Tonnage canceled.....	11	60,000
		252,900
Tonnage suspended.....	2	25,000
		227,900
Tonnage delivered.....	22	135,700
Tonnage under construction.....	10	92,200

The percentage of completion of the 92,200 tons now under construction is shown as 44.77 per cent by the report of the district manager of the Fleet Corporation for the Delaware River district.

An exhibit is attached, marked Exhibit C, showing by yards and hull numbers the vessels canceled, suspended, delivered, and in course of construction.

An exhibit is also attached, marked Exhibit D, showing (as of Oct. 15, 1919) the state of construction of the hulls now under construction (10 vessels).

IV. PROPOSALS TO ADJUST RELATIONS WITH THE PUSEY & JONES CO.

Various bases for compensating the Pusey & Jones Co. for the work of construction have been under consideration by the Fleet Corporation officials. On or about August 25, 1919, at a conference between the officials of the construction division of the Fleet Corporation and the representatives of the Pusey & Jones Co., a definite basis was outlined for the adjustment of all claims of the Pusey & Jones Co. growing out of the requisitioning acts of the Fleet Corporation or in virtue of any subsequent agreements between the parties. This basis of compensation was acceptable to the Pusey & Jones Co. It also appears to represent the views of the construction division of the Fleet Corporation as to what would constitute a just award of compensation for the actual work of constructing tonnage embraced in the program with Pusey & Jones Co.

By the settlement thus proposed the Pusey & Jones Co. would be allowed:

1. For construction completed and to be completed (252,900 tons) the following prices, which include a \$10 per ton profit, and cost of all extras and changes with certain specific exceptions.

Vessel.	Yard.	Price.		Total.
		Per ton.	Per vessel.	
8, 4,300.....	Wilmington.....	\$230.52	\$991,236.00	\$7,929,888.00
6, 4,000.....	.....do.....	221.02	884,080.00	5,304,480.00
3, 5,000.....	New Jersey.....	309.52	1,547,600.00	4,642,800.00
6, 7,000.....	Pennsylvania.....	240.52	1,683,640.00	10,101,840.00
11, 12,500.....	.....do.....	179.52	2,244,000.00	24,684,000.00
Total.....	.....	.....	.....	52,663,008.00

2. An allowance for amortization of investment in plant and facilities, \$1,500,000.

3. An allowance for depreciation of plant and facilities, \$1,375,000.

4. Compensation for canceled construction (60,000 tons), \$600,000.

The plan further contemplates—

5. That the amounts to be allowed as amortization, for depreciation, and as compensation for canceled tonnage shall not be paid in cash but credited on the mortgage indebtedness of the Pusey & Jones Co. to the Fleet Corporation on delivery of the last vessel to be constructed by the Pusey & Jones Co., provided it performs its contract, the Wilmington yard to be released at this time for the lien of the existing mortgage.

6. That the Fleet Corporation will supply the Pusey & Jones Co. with, not to exceed \$3,500,000 working capital, the exact amount at any time to be in the discretion of the Fleet Corporation, and in any event to be reduced as the work of construction progresses.

7. That the profit to the Pusey & Jones Co. shall be applied in reduction of the mortgage indebtedness.

8. That interest shall not commence to run on the working capital and mortgage indebtedness of the Pusey & Jones Co. to the Fleet Corporation until October 1, 1920.

9. That the Fleet Corporation shall reimburse the Pusey & Jones Co. for all expenditures made by it on account of canceled tonnage, and assume all commitments of Pusey & Jones for such canceled tonnage.

10. That the Pusey & Jones Co. shall assign its interest in the Noreg Realty Co. (a housing project at Gloucester) to the Fleet Corporation.

11. That Pennsylvania hulls 15 to 19, inclusive, heretofore suspended, shall be reinstated, and that the cancellation of Pennsylvania hulls 13 to 14 and New Jersey hulls 304 to 312, inclusive, shall stand.

The foregoing plan undertakes to award the just compensation properly due for the work of constructing the vessels delivered and to be delivered; against such compensation there must be charged the amounts to which the Government is entitled to apply in part payment, in virtue of the rights acquired from former owners. These rights will now be considered.

V. RIGHT OF FLEET CORPORATION TO LOOK THROUGH CORPORATE FORMS TO HANNEVIG.

Christoffer Hannevig not only owns the entire capital stock of the Pusey & Jones Co., but also owns and controls the Bulk Oil Transports (Inc.), and Manss Steamship Corporation. As he dictated the placing of the contracts between these companies, both as the builder and as the owner, the Fleet Corporation is entitled to look through the corporate forms to the substance of the transactions, and it should, in any adjust-

ment with the Pusey & Jones Co., require a disposition of the related matters growing out of these intercorporate transactions.

(a) Right of Fleet Corporation to apply as a credit on the payment of the vessels the sums taken by Hannevig.

It will be remembered that Hannevig in committing his yards to a construction program of 45 vessels had done so by placing informal orders for nine vessels for his personal account, by making formal written contracts between himself and his shipbuilding company for eight vessels, and by causing the execution of 15 formal contracts between the shipyard and the Bulk Oil Transports (Inc.), and eight formal contracts between the shipyard and Manass Steamship Corporation.

The remaining five contracts were originally placed by various Norwegians and the shipyard. These five Norwegian contracts (covering Pennsylvania hulls Nos. 1, 2, 3, 7, and 8) were controlled by Hannevig, either as the purchaser in fact or professedly as the agent for the nominal owners. Before August 3, 1917, he procured the cancellation of four of them (Pennsylvania hulls Nos. 1, 3, 7, and 8) and the execution of new contracts in their place directly between the Pennsylvania Shipbuilding Co. and the Cunard Steamship Co. (Ltd.), at increased prices. He also, prior to August 3, 1917, procured the assignment to himself of the contract covering Pennsylvania hull No. 2 and then entered into a contract (Jan. 25, 1917) with the Continental Transportation & Oil Co. to deliver the vessels, when completed, to that company, but at an increased price.

Hannevig also procured the cancellation of the original contracts between the Pennsylvania Shipbuilding Co. and Bulk Oil Transports (Inc.), covering Pennsylvania hulls Nos. 4, 5, and 6, and 9 and 10 (five vessels), and the execution of new contracts between the shipbuilding company and the Cunard Steamship Co. (Ltd.), at increased prices for the vessels; and these transactions occurred prior to August 3, 1917.

Hannevig also assigned, prior to August 3, 1917, the original contracts between him and the Pusey & Jones Co., Wilmington, covering Wilmington hulls Nos. 1001 to 1008, inclusive, to the Cunard Co. and procured the execution of supplemental agreements consenting to the assignment and to the modification of certain of the terms and conditions of the original contracts. The prices stipulated in the original contracts remained unchanged, the consideration for the assignments being paid by the Cunard Co. directly to Hannevig.

By August 3, 1917, therefore, he had thus sold 18 of the 45 hulls here in question. On nine of the Pennsylvania hulls Hannevig took from the shipyard the amount which it had received from the Cunard Co. in excess of the original contract price. On Pennsylvania hull No. 2, sold to the Continental Transportation & Oil Co., Hannevig took an excess of \$330,000 over the original contract price. And on the eight Wilmington hulls sold to the Cunard Co. Hannevig took directly from the Cunard Co. the difference between the resale price and the original contract price. The sums which Hannevig thus took upon these transactions amounted to \$5,297,000 in the case of the Cunard vessels and to \$330,000 in the case of the Continental Transportation & Oil Co.'s vessel, and the Fleet Corporation has already repaid the Cunard Co. (contract Jan. 30, 1918) and awarded to the John M. Connolly Co. (a subsidiary of the Continental Co.) just compensation which includes the \$330,000 taken by Hannevig.

The sums taken by Hannevig on each of the 18 hulls sold by him are set forth in Exhibit "E" attached hereto.

On well settled principles of law the Cunard Steamship Co. (Ltd.) and the Continental Transportation & Oil Co. had the undoubted right to require the moneys paid by them to be applied to the performance by the shipyards of their obligation to build the vessel. The Fleet Corporation has purchased these same rights, 100 per cent, and is entitled to apply the money which Hannevig thus took as a credit, in payment by it, for the vessels requisitioned.

In addition to the credit of this principal sum of \$5,627,000, interest upon the amount should be charged at least from August 3, 1917. And this is particularly fitting, not only because the taking of the money was in the first instance a wrongful diversion of credits to which the Fleet Corporation (through its predecessors in interest) was properly entitled, but also because the Fleet Corporation has, since August 3, 1917, practically financed the work of the Pusey & Jones yards, and it now actually has outstanding as a loan to the Pusey & Jones Co., without interest, on account of plant construction, the amount of \$6,146,696.89 (as of Sept. 30, 1919).

(b) Right of Fleet Corporation to require release of all claims of Hannevig and his controlled corporations.

Any adjustment with the Pusey & Jones Co. should also comprehend a full release of the Fleet Corporation and the Government by Hannevig and his various corporations. Disregarding corporate fictions, the balances for which the Bulk Oil Transports (Inc.), and the Manass Steamship Corporation have not been reimbursed by the

Fleet Corporation on hulls covered by their contracts (i. e., on account of their progress payments to the yards) should be applied as a credit in the final adjustment with the Pusey & Jones Co.

The amount of these progress payments and the extent to which the Fleet Corporation has repaid them are, in the case of the two companies, respectively as follows:

Bulk Oil Transports (Inc.).

Progress payments.....	\$468, 162. 50
Repaid by E. F. C.....	250, 000. 00
Balance.....	218, 162. 50

Manss Steamship Corporation.

Progress payments.....	\$306, 250. 00
Repaid by E. F. C.....	175, 000. 00
Balance.....	131, 250. 00

In addition to the progress payments made by the Bulk Oil Transports (Inc.) and the Manss Steamship Corporation represented by cash paid to the yards, these companies have made certain promissory notes agreeing to pay the yards an aggregate sum of \$663,750, which the Fleet Corporation is asked to pay. The request should be denied.

VI. OBLIGATION OF FLEET CORPORATION ON BASIS OF PROPOSED ADJUSTMENT, AFTER DEDUCTING CREDITS TO WHICH IT IS ENTITLED.

Taking into account the credits to which the Fleet Corporation is entitled, its obligation to the Pusey & Jones Co. on the basis of the proposed settlement is as follows:

The aggregate amount to be paid Pusey & Jones Co. upon the basis of the prices under the proposed adjustment would be, \$52,663,008.

Against this amount should be credited the following:

Cash advanced by E. F. C. for ship construction:	
(a) Distributed to hulls.....	\$33, 137, 906. 94
(b) Undistributed.....	987, 711. 05
	<u>\$34, 125, 617. 99</u>
Advances by former owners heretofore credited to E. F. C. on Pusey & Jones Co. books.....	5, 035, 462. 50
Advances by former owners taken by by Hannevig, which should be credited to E. F. C.....	\$5, 627, 000. 00
Interest at 5 per cent, Aug. 3, 1917, to Nov. 3, 1919.....	633, 033. 00
	<u>6, 260, 033. 00</u>
	<u>\$45, 421, 113. 49</u>
Amount which E. F. C is obligated to pay to have the entire tonnage completed.....	7, 241, 894. 51
In addition to the above, the Pusey & Jones Co. will be entitled to credits, to be applied upon its mortgage indebtedness, as follows:	
(a) Amortization.....	\$1, 500, 000. 00
(b) Depreciation.....	1, 750, 000. 00
(c) Cancellation allowance.....	600, 000. 00
	<u>3, 475, 000. 00</u>
	<u>10, 716, 894. 51</u>

In other words, the Fleet Corporation, on the basis of the prices stipulated in the proposed adjustment, is obligated to pay the sum of \$7,241,894.51 (which includes the \$10 per ton profit amounting to \$2,529,000, in return for which the Pusey & Jones Co. is obligated to complete the entire construction program. It can not do so, however, in its present financial condition, resulting from Hannevig's depletion of its assets. It is estimated by the construction division of the Fleet Corporation that it will require approximately \$12,000,000 cash to complete actual construction, or, roughly, \$5,000,000,000 more than the Pusey & Jones Co. is entitled to receive.

The diversion by Hannevig of the payments on account of ship purchases made by former owners has still another consequence. The Fleet Corporation has, in order to enable the Pusey & Jones Co. to finance the construction of its plants, loaned it the sum of \$6,146,696.89 (to Sept. 30, 1919) secured by mortgage on its properties. The proposed adjustment contemplates the reduction of this debt by the application thereon, on completion of the last ship (a) of profits, (b) of amortization, (c) of depreciation, and (d) of cancellation allowance.

But as seen from the above, Pusey & Jones have not sufficient working capital now, nor will they receive sufficient additions thereto for payments made by the Fleet Corporation under the proposed agreement, to complete the proposed program.

Hannevig claims that he used a part of the Cunard and the Connelly advance payments taken by him, in acquiring the securities of the Pusey & Jones Co. at a later date. That circumstance, however, if true, does not discharge the credit to which the Fleet Corporation is entitled.

From the balance sheets of the three shipbuilding companies (July 31, 1917) now comprising the Pusey & Jones Co., it appears that Hannevig's investment in the Pusey & Jones yards was at the time of the Government's requisitioning orders about \$2,800,000; and we are advised by him that since that time he has invested in the yards by stock purchase and loans the further sum of \$3,800,000.

In a word, Hannevig took a total of \$5,627,000 cash from the company which should have been credited to the Emergency Fleet Corporation as part payments for vessels. He says that later he invested in the company \$3,200,000, but it will be noted that the effect of this transaction was to increase his holding of the corporate security. How does that satisfy the \$5,627,000 credit to which the Emergency Fleet Corporation is entitled? If the corporation needed more capital its stockholder could invest, but he can not use for this purpose the credits due to a third party.

For example, should Mr. Gary of the United States Steel Corporation take a \$5,627,000 cash payment which came across his desk, paid by the United States Government to the United States Steel Corporation on one of its contracts as a progress payment, and put the \$5,627,000 in his pocket, he could not then say to the Government that it was not entitled to a credit for the amount because he had just purchased treasury stock of the Steel Corporation to the extent of \$3,200,000. Nor could he say to the corporation that he was entitled to this sum because he bought certain treasury stock.

CONCLUSION AND RECOMMENDATIONS.

In reference to the proposed agreement of August 25, 1919, we recommend:

First. That the lump-sum prices per dead-weight ton for the tonnage delivered and to be delivered, and the allowances for amortization, depreciation, and cancellation, as set forth therein, be adopted.

Second. That all amounts due or to become due or to be advanced under the agreement be under the control of the Fleet Corporation's comptroller, and that any excess moneys be applied to the satisfaction of obligations due to the Fleet Corporation; also that no interest shall be charged on working capital or on the present mortgage indebtedness until after October 1, 1920, provided the company performs its contract.

Third. That sufficient working capital be provided from time to time to complete the ships to whatever extent is necessary, such moneys to be controlled, both as to amount and payments, by the construction division and the Fleet Corporation's comptroller, respectively.

Fourth. That the Pusey & Jones Co. be reimbursed for expenditures made by them on account of canceled tonnage, and that the Fleet Corporation shall assume all commitments made by the company in connection therewith.

Fifth. That the company shall assign and deed to the Fleet Corporation any and all stock or other interest that it may have in the Noreg Realty Co.

Sixth. That the Fleet Corporation reinstate the five 12,500-ton vessels and cancel the nine 5,000-ton vessels and the two 7,500-ton vessels.

Seventh. That the Fleet Corporation work in harmony with Mr. Hannevig and his interests to dispose of, in whole or in part, the plant and facilities used in performing the contract, and that all moneys received from the sale of any equities be paid to the Fleet Corporation to apply on the obligations due to it until they are fully satisfied.

Respectfully submitted.

LINCOLN R. CLARK,
JOHN A. BECK,
Assistant Counsel.

Mr. STEEL. So there is simply a judicial entry of judgment on findings of fact?

Mr. GILLEN. That is just what we have done, Mr. Congressman; we have set forth the findings of fact, and then the conclusions, which is the award. That was Judge Payne's plan that he drew up.

The CHAIRMAN. If I understand your testimony in this Pusey & Jones matter, Hennevig was the agent of the Cunard Line?

Mr. GILLEN. No, no. Hennevig was an independent ship broker working in this country, making contracts with yards, and afterwards buying into the yards. Cunard was contracting in this country for ships. It meets Hennevig and makes a contract with Hennevig to build a certain number of ships, and makes written contracts. They paid Hennevig on account of those contracts certain sums of money. In those two yards of Pusey & Jones they had paid him on account of his progress payments \$3,700,000. We say to Hennevig, "Our principal, Cunard, paid you that money. Now, we have bought Cunard's rights. On our books, therefore, is a charge against you of the money Cunard has paid you on account of these contracts which you were performing for them, and which you are now performing for us."

Mr. KELLEY. What does he say to that?

Mr. GILLEN. He says he is entitled to have the profits. We ask him what profits? And he says the profits that are in those contracts. We tell him that the American practice is not to give any profits until you fulfill your contract. And we afterwards paid him \$16.50 net profit per dead-weight ton on each ship that he produced. And we say to him, "In establishing just compensation, just compensation is paying you for the work you do for us, and we pay you when we give you \$16.50 net profit." We make an award of just compensation, allowing him amortization, cancellation charges, and profit. I think we allow him a profit on the whole transaction of about \$7,100,000, but we say to him, "We charge you against that with having received \$3,700,000."

Mr. KELLEY. What relation is this Hennevig to Pusey & Jones?

Mr. GILLEN. There is evidence that he owned at the time this contract was made, all the stock of Pusey & Jones, and a number of subsidiary companies. He had a number of companies, and he owned all the stock in the corporation.

The CHAIRMAN. He owned the stock in the Pusey & Jones Co., didn't he?

Mr. GILLEN. He owned the stock of the Pusey & Jones Co., and in about four subsidiary companies. What he was trying to do was this: He was trying to take these subsidiary companies and make contracts, and pass the contracts on, and he was same the man all the way through. Mr. Beck and Mr. Clark dug up the records, and then we made the findings and stopped him from his profits down through to the bottom.

The CHAIRMAN. Is there any other settlement you have in mind, Mr. Gillen?

Mr. GILLEN. I think those are the big settlements. As to the Food Administration—

Mr. STEELE. That is a different subject, is it not, Mr. Chairman?

The CHAIRMAN. If that is a different subject we will let that go for the present. Before we touch upon another subject I think that some

of the other members of the committee may desire to ask some questions upon this subject. Have you some questions, Mr. Kelley?

Mr. KELLEY. Perhaps Mr. Steele will go ahead. I may have some later.

Mr. STEELE. Mr. Gillen, when did you say that Judge Payne became chairman of the Shipping Board?

Mr. GILLEN. I think it was August 1.

Mr. STEELE. What year?

Mr. GILLEN. 1919.

Mr. STEELE. And he continued to occupy that position until the following 1st of March.

Mr. GILLEN. I think it was the 1st of March.

Mr. STEELE. You have referred to difficulty of obtaining record as to the operations of various ships taken over; and you have referred to the fact that there were freights amounting to something like \$300,000,000——

Mr. GILLEN (interposing). Freights and cash amounting to about \$125,000,000 in banks.

Mr. STEELE. Upon your investigation of the operation of those ships by the Government are you able to say whether or not they were operated at a profit or loss to the Government?

Mr. GILLEN. I would prefer on as large a matter as that not to make any comment, because in the report that Judge Payne sent both to the Senate Committee, a copy of which I believe is here——

Mr. STEELE (interposing). I have not seen it.

Mr. GILLEN. Well, that report gives the reflections. The fact of the matter is that there has been no profit as shown by the figures they had. And I have a record of that, if I may speak outside of the record, and there was no profit after the war was over on our own ships. We have never made depreciation or interest on our ships, and have absorbed none of the war amortization on our ships.

Mr. STEELE. We are able to say this much, that the war operation of the merchant marine, constructed or taken over as the result of war, has not been a profitable operation to the Government.

Mr. GILLEN. It has not.

Mr. STEELE. In your judgment——

Mr. GILLEN (interposing). May I say there, that there is no other relief at this time, however, and the Government must carry on.

Mr. STEELE. The ships are here and if not operated they will depreciate much more rapidly.

Mr. GILLEN. Yes, sir.

Mr. STEELE. This inquiry is simply for the purpose of enlightening the committee, or at least myself as one member of the committee. From your observation or knowledge of the operations of those ships, in your opinion, could they be operated at a profit in the future?

Mr. GILLEN. Do you mean under governmental operation?

Mr. STEELE. Yes; I mean under governmental operation.

Mr. GILLEN. That all depends on at what price you fix the value of the dead-weight tonnage. In other words, it cost the Government for all this transaction, in one way and another, about \$3,800,000,000.

Mr. STEELE. Yes.

Mr. GILLEN. And you have on hand at the present time possibly 1,300 good ships. I mean big ships, steel ships. Now, you must take the value of those ships at the price at which ships will go in

order to determine whether or not you can make a profit on those ships. In other words, it is not fair to the Government or to any Shipping Board that operates in the future to hold those ships at \$220 a dead-weight ton in order to make a test as to whether they can make a profit. You must bring them down somewhere around a proper value, possibly somewhere between \$125 and \$140 a dead-weight ton.

Mr. STEELE. How does the price which the American Government has compare with that of the British Government?

Mr. GILLEN. Do you mean the price of the tonnage?

Mr. STEELE. Yes; per ton?

Mr. GILLEN. If I gave an answer to that question, it would be a very loose one. The Shipping Board has a record of contracts placed in the American shipyards within the last—well, we had it in February, was the last one I made analysis of, but I understand that Admiral Benson has all that information sorted, and I think it would be more wise to take it from the charts than from me.

Mr. STEELE. That information would be more nearly correct.

Mr. GILLEN. Yes, sir.

Mr. STEELE. Isn't it a fact that the British Government has been selling its tonnage at a lower price per dead-weight ton than has the American Government?

Mr. GILLEN. I do not think there is any question about that.

Mr. STEELE. At the outset of this war we had scarcely any merchant marine. All this tonnage we have now is simply the aftermath of the war, isn't it? Isn't that correct?

Mr. GILLEN. I would say so. May I put it in another way?

Mr. STEELE. Yes.

Mr. GILLEN. To save this Nation we were compelled to build a bridge across the ocean. In the midst of the building of that bridge across the ocean, victory came. We then had to change the policy of construction somewhat, and the policy of operation, in order to save what the Government had invested, so far as we could. That meant we had to take the ships we had and those coming off the ways and put them into use, because we could not sell them; and there was need of those ships, and we could not leave them at the docks. We had to do something with them. In other words, it is a war transaction, if not so to-day.

Mr. STEELE. And, necessarily, like all war transactions, it had to be continued at a great loss?

Mr. GILLEN. I agree with you, sir.

Mr. STEELE. That part there is no dispute about. At the very beginning it was expected a heavy loss would be incurred.

Mr. GILLEN. Yes, sir.

Mr. STEELE. Now, taking charge of these vessels, after the war was terminated, was in the nature of a salvage proposition, then?

Mr. GILLEN. Call it a liquidating proposition.

Mr. STEELE. A liquidating proposition, then.

Mr. GILLEN. All right.

Mr. STEELE. So that the Shipping Board is now engaged, so far as the completion of the construction program on contracts entered into before the termination of the war is concerned, of ships being completed under contracts that had been entered into, that is completing this matter?

Mr. GILLEN. Yes; and it will be a liquidating proposition under the mandate of the Congress, up to the time it has disposed of all the material, all the ships we now own, and until the Shipping Board can function normally, taking care, like the Interstate Commerce Commission, of the peculiar problems that involve a merchant marine.

Mr. STEELE. With reference to the ships now on hand, is there a ready market at this time for the disposal of that tonnage?

Mr. GILLEN. I do not believe that there is a ready market to-day. I believe there was a ready market to absorb, last December or January and February of this year, at least 300 or 400 or 500 of the big steamers, cargo boats. I think there was a ready market because the financial condition of this country was then sound, and had we then dropped the price to a proper level—somewhere around \$130 or \$140 per dead-weight ton—something could have been done. In other words, if the Government had permitted, if you please, the Shipping Board to take that position, that it could sell, and then given them a long term in which to pay, the arrangement which we afterwards worked out, I believe there would have been absorbed by the American market somewhere between 300 and 600 of those boats.

Mr. STEELE. There are how many now?

Mr. GILLEN. Oh, I don't know how many. You men ought to know that. You men have been checking that up here.

The CHAIRMAN. But he is asking for your information.

Mr. STEELE. Yes; that is what I want.

Mr. GILLEN. Well, I would say between 1,300 and 1,400 of those boats.

Mr. STEELE. I was under the impression that one of the witnesses said 1,600 boats.

Mr. GILLEN. Oh, I do not think they have 1,600 big, steel boats; I am quite sure they have not. Now, in reference to the sale——

Mr. STEELE (interposing). The chairman of the committee tells me that in those figures uncompleted hulls were included, and wooden boats also, or were not included, I believe.

Mr. GILLEN. Yes, sir. If you want me to reach over to that record, I will give you a more exact figure, from Judge Payne's report. It is pretty hard to keep this terrific mass in your mind.

Mr. STEELE. Never mind. I just wanted your information.

Mr. GILLEN. As to sales, there is this one exception: There was and is to-day opportunity to sell tankers, of which we have an excess, at a very good price. That is because there is a world shortage of tankers and a national shortage of tankers. My judgment is that if this tonnage of tankers is built in British yards and here at home—and I think 900,000 tons of tankers are being built here—I think if they do not sell the excess tankers that we have, and arrange for them on somewhere near the market price of tankers, that with the power to build, the time will come when we will have an excess of tankers in the world's market, and an excess of tankers in the American market, and we will find that the price of tankers will go down to an amount where we will not get as much money out of the tankers.

Mr. STEELE. You referred to a possible sale last December. Was there authority in the Shipping Board to make sale?

Mr. GILLEN. May I answer that in my own way?

Mr. STEELE. Yes.

Mr. GILLEN. There was; and the Shipping Board went up to the Commerce Committee at the Senate, and went up to the Merchant Marine and Fisheries Committee of the House, and they held sessions on the matter of sale of the boats. All the reflections were given back and forth, and the opinion of Congress, as given by the two committees having charge of the Shipping Board, was to the effect that they should not drop the price of steel boats, passenger boats, or the tankers. In other words, it was a responsibility that the Shipping Board had, but under Judge Payne, he made it a point to go to the committees of the Congress that had charge of the matter so that there might not come any criticism, feeling that the Congress represented the people. So, if there was any error of judgment made, it was made because of inability to take care of this big amortization that is now apparent, not only in shipping, but in all the big underlying securities of America, as we see it on the stock market, in all the big raw materials, as we see it across the sea and across the country, in cotton and everything else.

The United States Government created a great merchant marine. It paid a big, a terrific profit. It could no more hold its prices up and sell these boats than the little retailer can hold the price of his cotton goods up. In other words, Uncle Sam must bravely and courageously meet the situation and sell these ships at what they can be used in private operation at. If it is the intention of the Congress, as set forth in the Jones bill, to meet this situation, it must courageously and bravely do what Mr. Houston, the Secretary of the Treasury of the United States, is asking everybody else to do; the Government must do the same thing, and there is no escape from it, in my judgment.

Mr. STEELE. Then, if I understood you, it was the consensus of judgment of the Shipping Board and the committee of the Senate and the committee of the House of Representatives, last December, that the ships should no be sold at the prices obtainable at that time.

Mr. GILLEN. Oh, no—Oh, did you ask at the prices obtainable at that time?

Mr. STEELE. Yes.

Mr. GILLEN. No; and there was not a free market at that time, because as a merchant—and the Shipping Board stood in the position of a merchant——

Mr. STEELE (interposing). I meant last December.

Mr. GILLEN. Can you tell me what the price was at that time at which they would go?

Mr. STEELE. No; I am only asking you for it.

Mr. GILLEN. I could not tell it. We now have, however, the reflections of the great drop in prices in ships as well as in everything else. We now have the wisdom that has come, and my judgment is if the Shipping Board had sold at that time, had induced American investors to buy boats at \$185 a ton, and had sold them 600 boats at \$185 a ton, they would have broken every shipping company in America that bought at \$185 a ton. And they would have destroyed any opportunity of ever having the American people invest in ship securities, because it is a new line of business in this country. In England it is an old line of business, but if you were to start in in America by destroying the security market—bankers and the trust companies and the other men who put out securities, to take care of

these large transactions, have to have a market therefor. You understand that when they get these securities they do not keep them on their counters, but put them out on the market. And had you done that you would have done just what the Shipping Board did to those who purchased ships from us at \$225 and \$200 and \$185 a ton—they are all in financial trouble now, because the Government did not absorb the war amortization, and they have tried to absorb it, with the result that ship securities are to-day a drug on the market, with even just that little touch in the situation.

In that regard, the Government is the owner of 1,200 to 1,500 ships. It must create a good, clean market in America, so that when the farmer or the laboring man or the widow or the orphan buys from a trust company, they must have a stable security, and the Government must take up and change the contracts already made where it has involved the ship securities across the United States, on past prices. It must be done just like the tire companies do: When there is a cut of 15 per cent in tire prices, the big tire companies, like the United States and Goodrich and Goodyear, make that change, and they send out word and take a loss of 15 per cent. The Government is not in any different position than the big business institutions of America, who have to sell their goods in the American market to American investors. In other words, you must have an American investing market, in ship securities, or the American people will never absorb these ships for years and years. That means you have got to come down in price; you have to readjust the prices to the pioneers who were courageous enough to come in, the real men who did not hold back, Scotch like, and say, "I will hold back for lower prices or until I see what the situation is before I buy." You must treat the pioneers right, and the Government must be courageous enough to take amortization, but this is all different from what I was testifying on.

Mr. STEELE. It is very interesting to me, but if the plan suggested by you were followed, is it your opinion that the Shipping Board could close out its ownership in these ships and close out all Shipping Board transactions?

Mr. GILLEN. I think so, in a very, very large way. Yes, in a very, very large way it could.

Mr. STEELE. Will you be kind enough to explain what you mean by that?

Mr. GILLEN. Before 1914 it cost to produce a tanker from \$5 to \$8 more a ton than it did a steel cargo boat. These figures may be a little bit off, but I take it I may be pardoned if I do make an error in that as I am not a shipping man myself, although I do investigate all sorts of propositions from a commercial standpoint. Cargo boats cost about \$65 a dead-weight ton to build before 1918, and tankers about \$7 a dead-weight ton more. You have all the boats that were created before the war and in operation across the face of the world, and generally in the hands of people who owned them before the war started. You have the knowledge to-day that rates are falling and labor, wages, are going up, and costs of materials are going up, as against 1914. The result of that is that the investment, the base investment, gets a lower percentage of return. And it does not make any difference what it costs to produce an article if when you put it out into business it can not produce a return. It is valuable

only as over a period of years it will produce a return on the invested capital. And that invested capital in our ships to-day, and in all ships, is rapidly falling to around \$125 a dead-weight ton, if we read the times aright.

If it is fixed at \$125 a dead-weight ton, in my judgment, great financing transactions will occur shortly, because the trust companies of this country and the big investment houses which have to put out these securities, whether we like it or not, can put out securities at somewhere around \$65 to \$90 and \$100 per dead-weight ton of ships. The balance needed can be found in capital by preferred stock or common stock. But you can not get money, I mean, you can not get people to put money into common stock and preferred stocks in which there is war amortization. They won't do it. To-day you can't go and operate ships at \$85 or \$90 a dead-weight ton, but you must do financing. That fact will do you no good because the top money that must be raised—that is, beyond which the investor wants for his bond security, is not available in America on the basis of \$40 or \$50 or \$60 or \$70 or \$80 per dead-weight ton.

Mr. STEELE. If this tonnage were reduced to \$120 per dead-weight ton, as you have suggested, what would be charged off by the Government on the other, I mean approximately?

Mr. GILLEN. May I answer that in my own way?

Mr. STEELE. Sure.

Mr. GILLEN. We have expended to date about \$3,400,000,000 of appropriation, less \$50,000,000 we have on hand. We have also spent \$400,000,000 and some that we made out of handling other people's ships, not ours, not operated by us, because when we reached out and took all the ships on the ocean we merely told them to go on and operate them for our account. And we took all the big profits, some \$400,000. So we have expended to date about \$3,750,000,000.

As to the wooden ships, I won't say what they are worth, because the Government is trying to sell them, but they are not being operated by the Shipping Board, and we have got them tied up, properly tied up, supervised, if you please, in harbors in this country, because we can not operate them and just get the turn-around money out of them. So they are out of the picture.

If you take your steel cargoes, and you put them at \$150 a dead-weight ton, and they are now trying to sell practically on that basis, when you take the depreciation for the time they have been in the water and at what they could be reproduced for—if you have 1,200 of these ships, and call them worth \$150 a dead-weight ton, and call them 10,000 tons a piece, though they are not that large, you have about \$1,800,000,000 of property, and the amortization of \$2,000,000,000 has already occurred at the prices we are offering our boats to-day. That is in the record, the \$2,000,000,000, and it makes no difference what you do; that is in the record now. But it is quite under the prices at which the Fleet Corporation is holding this property.

Mr. STEELE. In other words, at \$150 a dead-weight ton.

Mr. GILLEN. Yes, sir; just so.

Mr. STEELE. If it is sold at the price you have suggested, it means a still further charging off of \$30 a ton.

Mr. GILLEN. About \$25 to \$30 a ton. In other words, if you get the tonnage, you can work it out. But the fact is that the American

people, the people generally, do not realize that \$2,000,000 have already gone; that we have not got anything for it, and there should not be any criticism of the Shipping Board therefor. It was a war expenditure, just as much as money expended for powder or anything else. It is gone.

There has not been in that record a terrific amount of wastefulness, as such, because they had to expend money to build plants under unusual conditions and with no supervision. Overnight we had to build in this country, if you please, a brand-new shipping industry. We had to get riveters and machinists and everything else called from the four quarters of the United States, and these men did not have any experience, and the Government had to pay for that experience. You had to have superintendents, a lot of them, and you had to train them, and that is simply a war waste. If you had the best men in America on that job down there you would have had war waste.

The things that I point out are in connection with the failure to lay down fundamental principles of accounting, which would have given a judgment all down the line. And if there is any one big thing in my judgment that can be criticized down at Washington, it is the failure to establish accounting systems so that they could tell what was going on in all these transactions, and thus be able to form an intelligent judgment and work along based on such intelligent judgment.

But, gentlemen of the committee, I am afraid I am getting beyond the record.

Mr. STEELE. Mr. Gillen, you attribute the crux of the whole proposition, then, to not establishing a proper accounting system?

Mr. GILLEN. May I say this in the record?

Mr. STEELE. Certainly.

Mr. GILLEN. If you were at the head of the Chase National Bank in this city, and you had the funds of depositors to the extent of \$1,000,000,000, and you had your capital and surplus of \$20,000,000 odd in addition, whatever it is, and you and your board of directors had to make loans and business transactions, if you could not tell how much your loans and discounts were, except at a very rough guess, then you could not tell anything about the reflections of your business, and certainly would make one mistake after another with everybody you did business with and in the line of your business.

Mr. STEELE. Your criticism is directed to lack of judgment in establishing a proper accounting system, and not to any actual wrongdoing in the Shipping Board or the Emergency Fleet itself?

Mr. GILLEN. In reference to any wrongdoing in the Shipping Board, I want to say that I was there from the 1st of October, 1919, down to the 1st of August, 1920, and during that time I do not believe a dishonest motive controlled any of the commissioners that I saw during the time, not in any way, shape, or manner; nor any of the head officers that I came in contact with. That there have been some very lax things done, yes; but it has been due to the fact that that corporation is twice the size of the United States Steel Corporation; and it is due to the fact that it has property scattered all over the face of the world, and in the United States it is scattered over 13 districts.

On the other hand, the United States Steel Corporation has had directors who have served for years, trained in the steel business, and

other men of vast knowledge, and they have a statistical record behind them, which runs back for many, many years, that was not available at Washington. One big thing that the board tried to do when they first got there was to put out contracts for building of ships, give contractors money to build ships, and so on; but there was not a manager there of experience in large affairs who understood that they must build an accounting system. Putting it on another phase, the Shipping Board was not like the Army or the Navy or the Post Office Department. They had great bookkeeping systems in those departments when the war started; the Shipping Board had none. It was a brand-new proposition. These departments also had experience and rules in the dealings they had with contractors; the Shipping Board had none, as such. These other great governmental departments have had history behind them; the Shipping Board had none.

I say that the American people will get and enjoy just as much government as the American people give the time to see that they get. This general criticism of the members of the Shipping Board is not, in my judgment, a just criticism.

I will take the case of Mr. John Donald, of the Shipping Board—a man who must be pretty nearly 70 years of age. From half past 8 o'clock in the morning until 6 o'clock at night that dear old gentleman worked there day and night, day after day, meeting men, and meeting them and meeting them. And the same is true in the case of Judge Payne—from half past 8 o'clock in the morning until 7 and 8 o'clock at night, night after night. These men were doing the best they could amidst the chaotic condition in accounting operation, and as well the chaotic condition over in the construction department.

Mr. STEELE. A whole system had to be improvised on the moment as a war emergency?

Mr. GILLEN. Yes, sir.

Mr. STEELE. You have referred to the extraordinary amount of money expended. I just wanted to suggest to you that the amount of money expended by the Shipping Board in the year and six or seven months of the war exceeded the entire amount of money spent by the Union during the four years of the Civil War.

Mr. GILLEN. I understand that. I mean by my answer that I got the point you make.

May I go one step further while we are in this matter, although we seem to have gotten far afield from the record.

Mr. STEELE. Well, I am glad to get the information you give.

Mr. GILLEN. When Judge Payne came there he took the position, that the Shipping Board could not function as the law intended it to function, namely, do the work of establishing an American merchant marine, by way of control of laws like the Interstate Commerce Commission did—that the men's time was too much taken up; that the first thing that should be done there was to clear away war wastage, have this great system of accounting corrected, and clean up the construction end, and clean up the sales, and clean up the surplus, and get the boats in the hands of the Shipping Board, so that the board could run the boats. Judge Payne's time was taken up in the main while there in trying to liquidate that great mass of stuff so that the Shipping Board could function as it was intended that it should function. And sometimes I think that we American people,

and the men who have been there, did not realize the situation. I sometimes think that what should have been done was that we should have taken all the boats and put them over in the body which we called the Shipping Board, and should have allowed the Emergency Fleet Corporation to continue, with another board of directors, and have the Emergency Fleet Board of Directors go over construction, cleaning up claims and accounting, and let the Shipping Board have just one thing to do—to run those ships and sell those ships.

I am not sure but what it might be a wise thing yet to take the Emergency Fleet Corporation away from the Shipping Board, and let them clean up all that stuff that is bad, because there is not time enough, there are not enough minutes in the hour or hours in the day for any board of directors like the Shipping Board to sit down and do that work. It can not be done. You can create an organization to do it, but it looks to me like the time even now has come if you want active work, go get a separation, so that they may proceed and it may be done without any great disturbance in the accounting.

Mr. STEELE. I was trying to get your suggestions so as to try to get something constructive as to how to deal with the Emergency Fleet Corporation in the future. Your opinion has been very informing to me, at least the statement that you have made. Now let me ask you: The statement has been made here that as reports came in criticising the work of subordinate officers and employees of the Shipping Board, that no attention was paid to those reports and nothing was done to correct any alleged abuses in connection therewith. What has been your experience in the board on that subject?

Mr. GILLEN. I believe the criticism is well founded. I think that is true. I will say that in my own case it has occurred—where matters have come up that I did not correct myself. But if you will let me explain that I would like to do so.

Mr. STEELE. All right.

Mr. GILLEN. No general principles of control had been laid down when I arrived there the 1st of October. And what we had to do was to let individual cases go by until we could get figures on the big things and drive the big things down over the boards. Much was sacrificed as to detail in individual cases in order to establish the big principle under which we could settle all similar cases following in a class.

As an illustration, I have given you the case of 451 ships. When I came there there was horse trading, if you please, on the settlement claims; yes, horse trading. Now, we put into effect rules so that everybody could understand them. That was just one big rule. Another big rule was \$4.15, which I have not testified to. Another rule was in reference to the way the books of the corporation should be kept. Another rule was as to the way we would sell the ships under mortgages. And until that was done it would be impossible to have Judge Payne or Admiral Benson enter an order and say: "Here, such and such a thing is occurring over there. Get men over there right away." It would be almost impossible to get into their offices, although their doors were always open.

Now, if that occurred in the United States Steel Corporation, what would be the situation? They have all these principles established and have everything worked out. If some trouble occurred down at

Gary, Ind., which was a new thing, it could get right up to Mr. Gary, or the man in charge, very quickly, and they would established a principle. But while you have pretty nearly all of the principles to be established, you have to let them come along in due course. And you have to chart from the record up so that when you come into conference you have not greatly upset the whole thing in the establishment of the principle.

Mr. STEELE. Outside of the large principles you have referred to, when matters came up did the board take action to correct them?

Mr. GILLEN. They always endeavored to get some action on matters. What I mean is this, there were not things about which it was said: "Don't bother us about this. We do not care to know about it." There never came over Judge Payne's desk a complaint that was not charted down to the proper department. And there never came one to my desk that was not charted down and what could be done was done to correct it. I think that is equally true of Admiral Benson.

Mr. STEELE. You referred to having a force of 900 men to audit the accounts, and that accounts were audited up to February 27, 1920. Has their work been entirely completed?

Mr. GILLEN. No; I did not say that.

Mr. STEELE. What was it you said?

Mr. GILLEN. What I said was that 900 auditors went out into the operators' offices and went through their books, and through the bank, in order to get the cash in, and to get the records in, to pull the records in, you might say. Col. Abadie's report tells you of accountings dug up. They are still working on accountings. How far along they are now, I do not know. But it is my impression they are down on their accountings to about the 1st of July of this year. They have gone through all that back work and are pretty well along.

Mr. STEELE. Was that back work due to the removal of the Emergency Fleet Corporation's offices from Washington to Philadelphia?

Mr. GILLEN. I would not say that.

Mr. STEELE. You would not say that?

Mr. GILLEN. No; I would not say that, because had a man like Mr. Tweedale, who had handled large transactions, or had they called upon the Comptroller of the United States Steel Corporation, or the comptroller of Armour & Co, or the comptroller of Henry Ford, men who have had national experience, he would have at once set up a system. You called on the best man in America to build ships, for instance, Mr. Schwab, and, in my opinion, he did an admirable piece of work. But he didn't have anything to do with accounting. He put men on the construction work, and gave them more money, and patted them on the back, and put things over. And you went over and got Mr. Raymond and Mr. Franklin, the best men to operate ships. But when you came to taking care of the books, and internal problem you had, you did not go to Price, Waterhouse & Co., or several others I might name. They did not go to Mr. Gary and say: "We do not want you, Mr. Gary, but we want your comptroller, because this is a bigger job than we have ever had." In other words, they did not bring to the accounting department the biggest outstanding men in America on that particular line.

Mr. STEELE. In other words, to have had a complete system of accounting or auditing would have required a very large force, wouldn't it?

Mr. GILLEN. Yes, sir.

Mr. STEELE. Scattered throughout the country?

Mr. GILLEN. Yes, sir.

Mr. STEELE. What I wanted to ask you was whether, considering the fact that during the war the conscription act was in force and men were not available at all times to do accounting work, whether it would have been possible under those conditions for the Shipping Board to have obtained the necessary auditing force?

Mr. GILLEN. The answer to that, Mr. Congressman, is this: You did not get a sufficient force to do whatever work was necessary. When I say "You," I beg your pardon, as of course, I do not mean you individually. When I get started I talk directly and use that term.

Mr. STEELE. I understand.

Mr. GILLEN. But they did not get men enough, big enough on this matter to lay the foundation, or men big enough to supervise the building of it and seeing it through, and men to go with it. And that was a fatal defect. That is the main trouble. Nor did they ever correct it. They never knew what was the matter. They never had corrected it up to the time I came there, or up to the time Judge Payne came there, when he reached out and got Col. Abadie and Mr. Tweedale.

Mr. STEELE. Your judgment is that at the beginning there was no comprehensive accounting system established?

Mr. GILLEN. No; and never thereafter until Judge Payne came there.

Mr. STEELE. At the same time, as you went along, experience suggested many changes which could not be foreseen at the beginning.

Mr. GILLEN. I will not admit that, because if I went to build a building like this one we are in I know that there are architects in America who can lay the plans, and there are contractors who can without difficulty construct the building, and there are accountants who can, without trouble, take care of the accounting necessary. When \$127,000,000 of cash of the United States Government lies scattered around in the banks of this country, I know there is something wrong, that there is somebody who ought to be but who is not on the job, because any ordinary business man ought to know how to get in the cash that belongs to the Government. I do not say that I am extraordinary in any way, but by taking the train at Washington and coming here to New York, and getting in here at 10 o'clock in the morning, and visiting eight banks—which I would do in my own case if I wanted to know my bank balance—and by asking for the Government bank balances at those eight banks, I got 136 accounts, and got reflections of what they had there. When I know that, I ask, something like that ought to have been done, ought it not?

Mr. STEELE. I agree with you that there ought to have been an accounting system. I can only call attention to possible difficulties existing at the time. Whether that is right or not, I want your best judgment on it.

Mr. GILLEN. My best judgment is that they did not have any control, that they did not know what was the matter, and never made any correction of the situation until Judge Payne came on the job.

Mr. STEELE. You say that Commander Scott evolved a new form of contract?

Mr. GILLEN. How was that?

Mr. STEELE. Commander Scott, did you say?

Mr. GILLEN. Commissioner Scott.

Mr. STEELE. I confused him with Commander Scott, but it is a different person entirely.

Mr. GILLEN. Yes, sir.

Mr. STEELE. That contract was not found to be workable, however, as I understand you.

Mr. GILLEN. Yes, sir.

Mr. STEELE. Mr. Gillen, you have referred to several contracts, particularly the Norwegian contract where there was quite a large overpayment, and that overpayment involved the application of what you called the Cotton rule, as I understood you.

Mr. GILLEN. Yes, sir; Plus data at hand upon which to make a judgment.

Mr. STEELE. I understood you to say that about the 1st of October, 1919, when you went with the Shipping Board, that you sent out a telegram to the different agencies having charge of the matter, that the Cotton rule would be applied in the settlement of claims.

Mr. GILLEN. No, no. When Admiral Capps was Chief of Construction, or whatever job he had, he had charge of contracts.

Mr. STEELE. He was general manager.

Mr. GILLEN. In 1917 he had as his aid and assistant Joe Cotton, and when the requisition order went through in October, some date in 1917, on that date they forthwith notified every shipbuilder in America and every shipowner who had a contract in the yard, that the Government was going to take over what they found in the yards and that they would pay the progress payments. In other words, two years before I came there, this notice had been sent out and the machinery set up.

Mr. STEELE. Then I understand you that Admiral Capps established that rule immediately after the formation of the Emergency Fleet Corporation, which was in 1917.

Mr. GILLEN. I do not know whether he was on the job, on the Shipping Board, I mean, or Emergency Fleet then. I never paid much attention to that.

Mr. STEELE. I think he was general manager of the Emergency Fleet Corporation. He was one of the earliest, and Gen. Goethals followed him.

The CHAIRMAN. I think it was the other way around, that Gen. Goethals was there first.

Mr. STEELE. Well, whichever way it was.

Mr. GILLEN. Let me fix your record on this: The order requisitioning ships on the ways was entered August 3, 1917, and within a few days thereafter—I have had the documents in my hand, but do not remember the exact date—but within a few days thereafter, notification was sent out commandeering materials in yards, and fixing the liability of the Government and the method under which

the Government would operate in settling those claims. That was two years before this other matter was settled.

Mr. STEELE. Mr. Cotton was at that time in the employ of the Shipping Board, as counsel, I understand.

Mr. GILLEN. I understand so.

Mr. STEELE. And he followed the English practice——

Mr. GILLEN (interposing). In large measure.

Mr. STEELE. I understand he followed the English practice; that is, of paying only the actual value of the hull on the ways and for the material on the ground.

Mr. GILLEN. Plus 10 per cent profit.

Mr. STEELE. That was the English rule which Mr. Cotton invoked in this case. Was that rule generally accepted by the people or was the American rule followed, or was there an American rule different from that?

Mr. GILLEN. Mr. Congressman, the United States Government has the sovereign power to commandeer, and under the decisions of the court, in commandeering, it must pay just compensation for that which it takes. That is the decision of our Supreme Court, following the commandeering act.

Mr. STEELE. Yes.

Mr. GILLEN. Following that understanding of the English rule, or having knowledge of it, and of the practice that obtained a couple of years prior to that, Mr. Cotton saw just what would happen, namely, that contractors having contracts with shipyards would come along with unusual claims for damages for taking over the contracts. He also knew that the rule of the Supreme Court of the United States was that no consequential damages follow the act of the Government in commandeering.

Mr. STEELE. Has that been decided by the Supreme Court?

Mr. GILLEN. Well, it has decided far enough so that out of 451 cases we have only got, I believe, one case in the Court of Claims. Every contractor in America, every one of the contracts from the 1st of October, have accepted this method of settlement, except the foreigner—every one of them except the one case I referred to.

Mr. STEELE. I am not absolutely sure, Mr. Gillen, and you have more familiarity with it than I have, and if I am wrong you may correct me.

Mr. GILLEN. Go ahead.

Mr. STEELE. Does not the Emergency Fleet act say that just compensation shall be paid for all vessels taken over?

Mr. GILLEN. Yes, sir.

Mr. STEELE. And authorizing the President, or some one designated by him, to fix just compensation?

Mr. GILLEN. Yes, sir.

Mr. STEELE. And if they are dissatisfied with that they have the right of appeal?

Mr. GILLEN. Where to?

Mr. STEELE. Well, the only place, I suppose, would be the Court of Claims. I do not know of any specific jurisdiction elsewhere, do you?

Mr. GILLEN. I do not know either.

Mr. STEELE. The general act fixes the limit of \$10,000 to the district court. Now, you say that the Supreme Court has defined as to what constitutes just compensation.

Mr. GILLEN. I say that the Supreme Court of the United States had determined that when the Government commandeers that no consequential damages flow from its act; that when the Government, through its agency, the Shipping Board, or the Emergency Fleet Corporation, commandeered a hull on the way or the material affected, and that some one, of course, had a contract on that, they should not have consequential damages. That might be claimed, of course, as a consequential damage in any other case, but the Government only pays for what it finds. Now, then, as to just compensation——

Mr. STEELE (interposing). I was trying to get at the basis of this Norwegian settlement.

Mr. GILLEN. I can give you the phases on that——

Mr. STEELE (interposing). It was settled, as I understand, on the claim made by the Norwegian Government for consequential as well as direct damages; is that correct?

Mr. GILLEN. Yes, sir. In other words, we gave the Norwegians a different settlement, applied a different rule than we gave Americans.

Mr. STEELE. Exactly. What I am trying to get at also is this: Conceding that there was liability on the part of the Government of the United States for consequential damages, then was their settlement a wrongful one?

Mr. GILLEN. Isn't it a very wise thing to take the advice of as wise a man as Mr. Cotton? That there are no consequential damages, than to go to work and trade?

Mr. STEELE. I agree with you on the principle, but is there anything else that was involved in that settlement?

Mr. GILLEN. I will give you what you are after. I think I understand.

Mr. STEELE. All right.

Mr. GILLEN. The facts of the case are that the Norwegians had representatives over at the peace conference at Versailles. They were badgering the American delegation, saying this big Nation was not settling its bills, and, as I am informed, the President of the United States requested, through his proper representatives, that the Shipping Board get busy on that bill; but he never told them to pay that bill differently than the law said it should be paid, nor did he tell them to settle that claim without making a proper investigation. Was that what you were after?

Mr. STEELE. I was trying to get at the atmosphere in which that claim was settled in that way.

Mr. GILLEN. I was not there, and my testimony is hearsay. You have powers to investigate. The main trouble with it was this: Until Judge Payne came there we did not have any resistance. Now, if I come in to do business with you across the desk, and you and I are a couple of traders, and you have got a claim against me, unless there is some resistance, sitting on this side, a real resistance, the resistance of first-hand knowledge of the principles of the transaction and the law that we are playing with, and second, resistance of the knowledge of the facts from my standpoint, and third, the moral resistance of looking you in the eye if you are my friend and saying, "No, old man, you are wrong"—that resistance was not there. Now, that is what Payne put in there. He put a resistance in there and principles in there, and dug the facts up to clean it.

Mr. STEELE. I understand that part. I am trying to get the atmosphere of the whole situation. These Norwegian citizens had, before our entry into the war, placed orders with our American shipyards for the construction of ships on their account?

Mr. GILLEN. Yes.

Mr. STEELE. That is correct, is it not?

Mr. GILLEN. In other words, the American shipyards were the only yards available in the world.

Mr. STEELE. Exactly. Now, there was a great lack of tonnage in the world at that time?

Mr. GILLEN. Yes.

Mr. STEELE. And this was the only market in which to produce that tonnage?

Mr. GILLEN. And they put those contracts in our American yards at \$135, \$140, \$150, \$160, and \$175 a dead-weight ton, and took them home and gambled with them on the stock exchange over there, and ran the high prices up, which means there is \$22,000,000 in gambling transactions over there, and the gamblers have got it, and we have paid the top price.

Mr. STEELE. When the American Government comes along and under its sovereign power commandeers those ships, confiscated them, you might say, almost, then the Norwegian citizens claim that the American Government must compensate them according to the value of those contracts to the Norwegian citizens. That is the claim which they made, is it not?

Mr. GILLEN. That is the same claim that has been made by the American citizens under the same circumstances, and we turned down the Americans, and when we take and analyze that the Secretary of State, after they have had three hearings over there on the Norwegians, decides that they do not stand in any other position in America than an American citizen making a contract here, and he has turned them down.

Mr. STEELE. And there has been some rule as to measure of damages laid down by some courts, in this country, even when the sovereign power intervenes, that would support their contention?

Mr. GILLEN. Well, in answer to that——

Mr. STEELE. But the Shipping Board was entirely right in supporting the lower figure as the measure of damages for this Government?

Mr. GILLEN. Yes. Judge Payne said this, that there may be a little dispute; whenever a little dispute came up, where it was a legal refinement, he said it is the duty of every officer who has taken the oath, to resolve those differences and legal quibbles which the clever lawyer on the other side of the table is putting over, in favor of the United States Government.

Mr. STEELE. Absolutely right.

Mr. GILLEN. And that is what we did down there.

Mr. STEELE. Absolutely right. You are to be commended for it. One other question or two, Mr. Gillen; you referred to a resolution adopted by the Shipping Board on July 18, 1919.

Mr. GILLEN. A resolution in reference to that matter?

Mr. STEELE. The Japanese case, Mitsui.

Mr. GILLEN. Oh, yes.

Mr. STEELE. Was the Cotton rule applied in that case?

Mr. GILLEN. It was not.

Mr. STEELE. That was after Judge Payne came into the Shipping Board, was it not?

Mr. GILLEN. It was before Judge Payne came into the Shipping Board; he came there August 1.

Mr. STEELE. The two dates are very close.

Mr. GILLEN. They are, but it is just the difference between having a hard-headed fellow with a lot of resistance coming in there, and having had the experience of big transactions and thus shake them off as they came up.

Mr. STEELE. But in that case it was not applied?

Mr. GILLEN. It was not.

Mr. STEELE. Was it corrected afterwards in any way?

Mr. GILLEN. It never was corrected.

Mr. STEELE. Has any effort been made to correct the Norwegian situation?

Mr. GILLEN. No; no effort has ever been made. It was not dug up until—I think it was dug up in May, about May or April I dug it up.

Mr. STEELE. Of this year?

Mr. GILLEN. And on this Japanese matter, I dug this up in the last few days. I have heard of it, but I have dug it up to get the facts in reference to it.

Mr. STEELE. Has the final settlement been made on the Japanese claim?

Mr. GILLEN. The final settlement has been made on the Japanese claim. In reference, however, to the Norwegian claim, may I say this? The Pan-American Petroleum, E. L. Doheny, considered he was very badly aggrieved in that matter because Jebesen—you remember the Jebesen case I gave you from the chart?

Mr. STEELE. I remember.

Mr. GILLEN. Where Jebesen had paid practically \$700,000 and he got \$2,045,000 in payment for his \$700,000, and we paid \$335,000 more to complete that ship? Well, Jebesen had a contract with the Union Iron Works.

Mr. STEELE. Where are they located?

Mr. GILLEN. Out in California.

Mr. STEELE. San Francisco?

Mr. GILLEN. San Francisco; to build that ship.

Mr. STEELE. That is a Bethlehem Steel subsidiary?

Mr. GILLEN. Yes. Doheny made a contract with Jebesen for that ship for 10 years' use on time charter, at \$3.50 a dead-weight ton per month, and as the trend went afterwards, he would have a boat under Norwegian flag, and could not have been taken over by our country; it would have been a terrifically valuable asset to Mr. Doheny. In addition to that, after the war was over, with the world shortage of tankers, and with the prices we now pay on labor, Mr. Jebesen could not have operated his ship for \$3.50 a dead-weight ton. In other words, Jebesen had a liability in that boat, an absolute liability, and Doheny was trying to get the Shipping Board to correct that situation, because he had Jebesen on a contract. When this transaction took place the money went across the water, and Jebesen got \$2,045,000 for an absolute liability, or \$700,000, which carried the liability. Mr. Doheny, through Mr. Kellogg, of Kellogg, Emery &

Cuthell, his counsel, have endeavored to find it; they have been to the State Department——

Mr. STEELE. Where are they located?

Mr. GILLEN. I think they are located here in New York. I know they are located here in New York. They have been trying, they have gone all over these records, they are trying to get back some of this money from Jebson, or trying to get hold of Jebson, so that they could get protection. In other words, in the first instance there, an American citizen, who had a valuable contract, is discarded, and Jebson gets \$2,045,000 for having paid \$700,000, and his \$700,000 was a liability because he had a contract tied to it for 10 years.

Now that is the effort that was being made, and if—well, that answers it, I think.

Mr. STEELE. And the same rule was applied to the Italian claim and the French claim, I understand?

Mr. GILLEN. Yes, sir; we applied the Cotton rule; and to the Russian volunteer fleet claims.

Mr. STEELE. And the Pusey & Jones case is still unsettled?

Mr. GILLEN. No, sir; it is settled.

Mr. STEELE. It is settled?

Mr. GILLEN. It has been settled; an award has been made there, and it is settled.

Mr. STEELE. Has it been accepted?

Mr. GILLEN. No; it is settled so far as we are concerned.

Mr. STEELE. Yes, I understand, so far as you are concerned.

Mr. GILLEN. That is our ordinary method. When we settle matters in principle and settle in fact, we do not allow them to come in afterwards. They have some resistance. We have settled \$1,500,000,000 worth of claims under the Payne system, in a period of about nine months.

Mr. STEELE. You say that the application of the Cotton rule has saved this Government practically \$150,000,000.

Mr. GILLEN. No, I said somewhere about \$100,000,000.

Mr. STEELE. Somewhere around \$100,000,000?

Mr. GILLEN. Because, I analyze it, if we had taken over the contracts or had followed the contract rule, you can see what would have happened. At once these 451 men who had placed contracts in shipyards, the prevailing rate then, the market rate was about \$250 to \$300 a dead-weight ton that you could sell boats at, those contract values were cut out by Mr. Cotton.

Mr. STEELE. Is it your judgment that it would have amounted to \$100,000,000? That was only an estimate, of course, I understand.

Mr. GILLEN. Listen, if you will wait a minute I will raise that ante. I would say that you can take what it cost us, I mean the original stuff we have there, and you can figure that pretty nearly every boat that was 7,000 tons or more, that we would have had to pay at least \$1,000,000; and I would say it saved not \$100,000,000—it can be estimated—I will say that it saved two hundred or two hundred and fifty million dollars by that rule; though we slipped here on these two cases and lost, we slipped back a little bit and lost \$23,000,000 of it right here.

Mr. STEELE. I know; I was wondering whether you considered those losses in connection with your estimate of the gains.

Mr. GILLEN. Well, I have not made enough of an estimate so I can tell you on that.

Mr. STEELE. I think that is all, Mr. Chairman.

Mr. KELLEY. Mr. Walsh, Mr. Gillen has been sitting now ever since half past nine.

Mr. GILLEN. You do not have to pay any attention to me. I would rather get through. I mean, I would rather you would slip right along.

The CHAIRMAN. We could not finish with you before recess, Mr. Gillen. We will take a recess until 2.15.

(Whereupon, at 1 o'clock p. m. a recess was taken until 2.15 o'clock p. m.)

AFTER RECESS.

TESTIMONY OF MR. MARTIN J. GILLEN—Resumed.

The CHAIRMAN. The committee will resume. Have you any further questions, Mr. Steele?

Mr. STEELE. Mr. Gillen, you referred to the requisitioned ships. Have all those accounts been closed out?

Mr. GILLEN. You mean requisitioned ships at sea, or requisitioned ships on the ways? Which do you mean?

Mr. STEELE. On the ways.

Mr. GILLEN. On the ways; there are only a few of them left, the last time I knew I guess there were only two or three of those left.

Mr. STEELE. Were they under close supervision in the different construction divisions?

Mr. GILLEN. Very close, the same as the rest of it. I think that generally the construction supervision of contracts was as good as could be expected, built up during the war.

Mr. STEELE. There were inspection representatives in each one of those divisions?

Mr. GILLEN. Yes. You are speaking now of the physical construction?

Mr. STEELE. Yes.

Mr. GILLEN. Not the accounting?

Mr. STEELE. No.

Mr. GILLEN. Yes, sir.

Mr. STEELE. I was just trying to define the conditions under the old system which you have referred to. Was it difficult, therefore, even under the old system, to obtain from those divisions the amount payable to the contractor as to any balance due him for construction purposes?

Mr. GILLEN. Very difficult, because you did not have any accounting of them. You had to go and rebuild the accounting, and we had to put people out to rebuild the accounting.

Mr. STEELE. Was there no system in those construction divisions by which you could have ascertained that?

Mr. GILLEN. The final keeping of records, as I explained this morning, went out into the districts, and out in the districts they endeavored to carry all the details on to a control book, but they did not get them, and they got messed there, with the result that you had to go beyond those books into the shipyard books, as we did.

Mr. STEELE. When, for instance, material was ordered with reference to the construction of any particular ship or contract, would that not be charged to the contract?

Mr. GILLEN. The contract would be made; some time after it was made it would reach the contract department, and then they would get it into the general books, where it first started, and then it would go down into the districts, and finally it would go out against the contract, and then finally it would be distributed against the ships, and against each ship in the contract; but they got it mixed, and they did not get through with it; it did not come through. There was much that was charged and did go through, but it is the amount that was not charged that I am talking about and describing here.

Mr. STEELE. I understand. The inference might be drawn——

Mr. GILLEN. That none of it had been done?

Mr. STEELE. That none of it had been done.

Mr. GILLEN. Oh, that is not true.

Mr. STEELE. That is not true; that is what I wanted to get at.

Mr. GILLEN. Oh, no; that is not true.

Mr. STEELE. I think that is all.

The CHAIRMAN. Mr. Kelley?

Mr. KELLEY. Your connection with the Fleet Corporation dated from October, 1919?

Mr. GILLEN. October 1.

Mr. KELLEY. So that the Emergency Fleet Corporation had been doing business about two years before you came in there?

Mr. GILLEN. Yes, sir.

Mr. KELLEY. You testified this morning that there had been 18 voyage accountings during those two years.

Mr. GILLEN. During those two years. At the time I arrived there, the time that I came there and took it up with Col. Abadie, he reported there were but eight then that had been completed.

Mr. KELLEY. How could the Bureau of Operations settle with the operators during all that two years?

Mr. GILLEN. The Bureau of Operations did not settle—had made no settlements. What they did would be to say to an operator of a ship, "Send us in some money." And even the director of operations did not do that; that was left to the treasurer to do, or the comptroller to do. The chief of operations did not supervise the business in any way, shape, or manner—the money reflection.

Mr. KELLEY. Do you mean to say, Mr. Gillen, that it is possible that we had some 1,200 ships, toward the last, in the hands of various operators, and that these ships were collecting large freight charges—large sums of money for the Government—and that during that whole two year up to the time that you went in there there was no place, no annual accounting or monthly accounting of any kind, between the Government and any one of these operators?

Mr. GILLEN. Yes, sir.

Mr. KELLEY. That is the fact, is it?

Mr. GILLEN. That is the fact.

Mr. KELLEY. And the only way that the Government got any money from these operators was simply that the treasurer of the Fleet Corporation would suggest now and then that money be sent in?

Mr. GILLEN. Or the people themselves would send it in. They were expected under the contract to carry it under the name of their

own corporation, with some term attached like "Shipping Board fund," to designate that it belonged to the Shipping Board and out of that fund they paid. They handled their own operations, some of them. They carried their own through there at the same time. There was no supervision in any way, shape, or manner of the Shipping Board operations with its operators as to profits when I came there, October 1, 1919.

Mr. KELLEY. Mr. Gillen, who was the director of operations when you went there?

Mr. GILLEN. Mr. John H. Rossiter.

Mr. KELLEY. He is a practical ship operator, is he not?

Mr. GILLEN. Yes.

Mr. KELLEY. The thing is almost incomprehensible to me, Mr. Gillen, that no accounting was made from time to time, with a practical ship man at the head of that division; and yet the situation was that there was \$120,000,000 scattered about in banks, some of it in the name of the Government, and some deposited in the name of these operators, that belonged to the Government of the United States?

Mr. GILLEN. Yes, sir.

Mr. KELLEY. And that there was no record there or in the treasury of the Shipping Board as to where it was?

Mr. GILLEN. That statement is correct.

Mr. KELLEY. Did not Mr. Rossiter know whereabouts the funds were?

Mr. GILLEN. He did not; so stated to me. At the time I took it up with him he said that he had heard, as friend of his in New York had told him, that one of the ship operators had as much as \$25,000,000, but that he did not know as to that fact. I asked Mr. Rossiter how he could tell as to the operating conditions, as to what was going on, the reflections, and he said, "It can not be done. I have a little organization of my own, where I am checking back and forth the operations of the ships, but," he said, "that work belongs to the comptroller and the treasurer to get that information."

Mr. KELLEY. Is it not possible that you skipped some of this money yourself, in making the investigation, as to where it was located?

Mr. GILLEN. I did not make the investigation; it was made by our auditors.

Mr. KELLEY. No, but you examined eight banks, you said, in New York here, and located twenty or thirty million dollars right away.

Mr. GILLEN. Yes, but I did that just as a test.

Mr. KELLEY. I see.

Mr. GILLEN. I just came up to New York to test out, to make a test, as I would in my own business. If I were going into a new matter, I might go over to the banks and say to the banks, "Let me have the cash balance to-day," just like an auditor of the United States Government goes into a bank and says, "Let me see what cash there is in this bank to-day. What have you got there?" That was merely a test, without reference to the books.

Mr. KELLEY. You did not know there was any money there belonging to the Government in that particular bank, possibly?

Mr. GILLEN. Not as a fact, but I strongly suspected it. In other words, if I may make it clear to you, during the war we requisitioned

on the high seas over 500 boats. Those boats were operated by the owners of those boats in most instances. They took the freight money, which was very large, the outgoing and incoming, if there was any; they made the disbursements: they kept the accounts in their own books, and put the cash in many cases in the bank under their own name, plus a term that designated it as Shipping Board funds. Naturally there would be cash there as the profit from the transactions. From time to time certain operators did send in to the Shipping Board large sums of money, but there never was a balance sheet struck off between a single operating company and the Shipping Board as to our own boats, the Shipping Board boats, that we built, either completely built or that we had requisitioned and built and operated afterwards. In those cases we would furnish the old operators—some of them took our boats who had their own boats—and new operating companies, we would furnish them the boats and in most cases an impress fund to start with. They would then get their freight money out and in and make their disbursements, and I do not know of a single case where, with our own boats, at the time that I arrived there on October 1, 1919, there was a monthly or annual balance sheet drafted, or where there was a cash balance of the money that was in the bank on any one of those companies.

Mr. KELLEY. Well, Mr. Gillen, is it not a fact that the chief of the Bureau of Operations appeared before a committee of Congress and testified that these boats were making large profits for the Government; and if there were no settlements and not any audits, how would anybody know whether the boats were making a profit or were being operated at a loss?

Mr. GILLEN. You have reference to Mr. Rossiter appearing before the Senate Commerce Committee in executive session, I believe.

Mr. KELLEY. Yes; I have seen statements of it.

Mr. GILLEN. I have seen statements, and I think I have seen some of the testimony.

Mr. KELLEY. That the boats were operated at a profit?

Mr. GILLEN. At that time Mr. Rossiter could not have had any definite knowledge upon which to make any statement before the executive committee. He might have had the knowledge of a single trip or two trips or three trips of certain boats in his own line, or of a big freight charge going out or coming in on a certain boat, but as to the operation of that boat on two or three or four trips or on any number of trips, he did not possess the information; it was not in the files or records of the Shipping Board.

Mr. KELLEY. And at the time that you went there there was no such record—

Mr. GILLEN. No, sir.

Mr. KELLEY (continuing). Obtainable, except as the auditors dug it all out from the beginning?

Mr. GILLEN. And there was not for months after I got there. I think the first statements of any kind that were dug out were dug out for Judge Payne when he gave his testimony March 1, or thereabouts, 1920, before the Senate Commerce Committee, and we then got up the first statement that we could get hold of, and that was after the audit drive, and after the cash was driven in from the banks, and after they began to dress the books up under the new system.

Mr. KELLEY. Where does your treasurer come in on all this accounting?

Mr. GILLEN. If you will wait, the question on the treasury, I will give the story of the treasury in due course.

Mr. KELLEY. Very well.

Mr. GILLEN. If you want it now, I will give it to you. It may be the proper time to bring in the treasury, because it has to do with the accounting. This may be the time to give the testimony on the treasury.

Mr. KELLEY. Well, it seemed rather remarkable to me that the treasurer would not have some kind of a check on these funds somewhere. Mr. Chairman, shall I withdraw the question for the present?

The CHAIRMAN. No; if it is pertinent to your inquiry.

Mr. GILLEN. I suppose I can go right into the treasury story right now, and that will answer it, because it can not be answered by a single question.

On August 1, 1919, Mr. Tweedale was made treasurer of the Fleet Corporation and of the Shipping Board, at just about the time Judge Payne came there. Judge Payne found the treasurer's office in very bad shape. He went over it with the Comptroller of the Treasury, Mr. Warwick, and he said, "I must have a treasurer. Can you recommend a man to me?" And Mr. Warwick recommended to him Alonzo Tweedale, who had been the comptroller of the District of Columbia for many years, and the man who got up all of the information for President Taft, and was the originator of the Taft budget bill for Congress—a very competent man. Judge Payne took him over on August 1, 1919.

On that date more than two and a half billion dollars had been disbursed through the Shipping Board and the Emergency Fleet Corporation, and the day that Mr. Tweedale took over that position there was no balance sheet in the treasurer's office showing where the moneys of the corporation were deposited, nor the amounts of the deposits—from appropriations—now, I am speaking not of the impressed funds, and the funds that they had in the hands of the operators—that was not there either, nor was there any record in that office of \$240,000,000 worth of securities, such as mortgages, notes, and Liberty bonds belonging to the corporation. They were afterwards found in a trust company in Philadelphia. I herewith submit for the record a list of the securities, naming them, and the date on which they were taken over by Mr. Tweedale, two months after he became treasurer, September 29, 1919. There is a photograph of the original copy and the place that they came from [tendering paper].

(The list referred to here is printed in full, as follows:)

United States Shipping Board Emergency Fleet Corporation securities and valuable papers deposited at Girard Trust Co., Philadelphia, Pa., as of Sept. 29, 1919.

Box No.	Date of security.	Security.	Of—	Amount.	Interest rate.	Due date and remarks.
					Per ct.	
	May 26, 1919	Bond (surety).....	Air Reduction Co.....	\$128,291.09		
	Oct. 1, 1918	do.....	do.....	24,290.00		
4	Aug. 9, 1919	do.....	Albino Engine & Machine Co.....	35,000.00		
	Aug. 19, 1919	do.....	do.....	35,000.00		
	July 26, 1918	First mortgage bond (re-caption only).....	Alabama Dry Dock & Shipbuilding Co.....			
	do.....	Mortgage.....	do.....			Final payment 4½ years after war.
	Sept. 18, 1918	Surety bond.....	do.....	50,000.00		
	Mar. 17, 1919	Release (copy).....	do.....			
	Oct. 25, 1917	Bond.....	do.....			
4	do.....	Mortgage.....	do.....	1,700,000.00		
	Jan. 19, 1918	Title, insurance policy.....	do.....	1,700,000.00		
1	1917.....	Liberty bonds (coupon receipt attached).....	do.....	100,000.00		
			do.....	250,000.00	3½	Due 1947; December, 1919, and succeeding coupons attached.
	Nov. 3, 1918	Surety bond.....	American Clay Machinery Co.....	125,000.00		
	July 16, 1917	Surety bond (signed copy).....	do.....	120,750.00		
	Dec. 24, 1917	Surety bond (3 copies).....	do.....	138,000.00		
	Mar. 20, 1918	Surety bond.....	American Condenser & Engine Corporation.....	262,064.00		
4	Aug. 27, 1919	Bond.....	American Paying Co. (B. D. Wright and Jas. McVittie, sureties) and North Chester Realty Co.....	25,000.00		
	Mar. 25, 1919	Note.....	American Shipbuilding Co.....	175,000.00	6	Mar. 25, 1920.
	Feb. 7, 1919	do.....	do.....	125,000.00	6	Feb. 7, 1920.
4	do.....	Mortgage.....	do.....	300,000.00	6	
		Assignment of bond and mortgage (copy).....	American Shipbuilding Co. to U. S. Shipbuilding Emergency Fleet Corporation.....			
4	do.....	do.....	American Shipbuilding Co.....			
	Aug. 29, 1918	Surety bond.....	do.....	200,000.00		
	Dec. 20, 1917	Surety bond (in duplicate).....	do.....	144,000.00		
	Jan. 4, 1918	Surety bond.....	American Shipbuilding Co. as principle.....	500,000.00		
	June 26, 1917	do.....	American Shipbuilding Co.....	200,000.00		
4	Aug. 5, 1919	do.....	American Tie & Timber Co.....	48,000.00		
1	Dec. 31, 1917	Demand note.....	Ames Shipbuilding and Dry Dock Co.....	200,000.00	5	
1	Aug. 23, 1917	Agreement (copy).....	Ames Shipbuilding & Dry Dock Co. with U. S. Shipbuilding Emergency Fleet Corporation.....			
	Mar. 21, 1917	do.....	Ames Shipbuilding & Dry Dock Co. and Cunard Steamship Co. (Ltd.).....			
	Feb. 15, 1917	do.....	do.....			
	Jan. 5, 1917	do.....	Ames Shipbuilding & Dry Dock Co. and Standard Oil Co.....			
			do.....			Groton Iron Works and U. S. Steamship Co. as sureties.

United States Shipping Board Emergency Fleet Corporation securities and valuable papers deposited at Girard Trust Co., Philadelphia, Pa., as of Sept. 29, 1919—Continued.

Box No.	Date of security.	Security.	Of—	Amount.	Interest rate.	Due date and remarks.
	Feb. 1, 1918	Agreement (copy).....	Irving J. L. Anderson and J. L. Anderson		Per ct.	
	Mar. 21, 1917	do.....	Girard Steamship Co.			
	Oct. 9, 1917	Agreement.....	U. S. Shipbuilding Emergency Fleet Corporation	\$750,000.00	6	Nov. 1, 1918.
1		Affidavit.....	do president and auditor)	30,000 00		
	Oct 16, 1918	Surety bond.....	do	1,750,000 00	5	July 10, 1923.
4	July 10, 1918	Mortgage.....	do	1,750,000 00	5	Do.
6	do	Mortgage bond.....	do	25,000 00		200 shares at \$100.
4	July 10, 1918	Capital stock.....	Atlantic Heights Co.			
		Mortgage assignment (copy).....	Atlantic Corporation to U. S. Shipbuilding Emergency Fleet Corporation.			
	Jan 2, 1918	Surety bond.....	Atlantic Corporation and Mason Machine Works.	1,056,000.00		
	June 12, 1918	Mortgage.....	Atlantic Corporation to U. S. Shipbuilding Emergency Fleet Corporation.	1,000,000.00	5	Dec. 12, 1919.
	do	Agreement as to mortgage.....	do " " " Works, and U. S. Shipbuilding			
6	Feb. 19, 1919	Assignment of lien.....	do			
		Capital stock.....	do	2,004,800.00		20,048 shares, at \$100 (not indexed).
1	Dec. 1, 1917	Agreement (3 signed copies).....	Badenhausen Co., Globe Indemnity Co., and U. S. Shipbuilding Emergency Fleet Corporation.			
6		Capital stock.....	Badenhausen Co. (Bound Brook Engine & Manufacturing Co.)	299,000.00		2,990 shares, at \$100.
	Jan. 26, 1918	Reinsurance statement (3 copies).....	Badenhausen Co. (Globe Indemnity Co. to Hartford Accident & Indemnity Co.)	60,000.00		
4	do	Agreement (copy).....	Badenhausen Co.			
	do	Reinsurance statement (4 copies).....	Badenhausen Co. (Globe Indemnity Co. to the European Accident Insurance Co., Ltd.)	60,000.00		
	July 17, 1918	do	Badenhausen Co.	700,000.00	5	Jan. 1, 1920.
	Jan. 26, 1918	do	Badenhausen Co.	300,000.00		
	Oct. 4, 1917	do	do	75,000.00		
	Jan. 26, 1918	do	Badenhausen Co. (Globe Indemnity to London Lancashire Co.)	60,000.00		
	do	do	do			
	do	do	Badenhausen Co. (Globe Indemnity to Norwegian Globe Insurance Co. Ltd.)	60,000.00		
4	Mar 17, 1919	Reinsurance (3 signed copies).....	do			
4	Feb. 5, 1919	Partial release (copy).....	Baltimore Dry Dock & Shipbuilding Co.	200,000.00		
4	June 1, 1918	do	do	200,000.00		
4	Apr. 30, 1919	do	do	300,000.00		
4	July 1, 1917	do	do	200,000.00		
4	Apr. 3, 1919	do	do	1,800,000.00		
4	Mar. 24, 1919	do	do	200,000.00		
4	June 9, 1919	do	do	200,000.00		

July 2, 1917	Performance bond	do	1,000,000.00		
Sept. 6, 1918	Surety bond	Baldt Anchor Co.	80,000.00		
Nov. 14, 1918	Agreement	Barnes, Henry, and U. S. Shipping Board Emergency Fleet Corporation.	2,250.00		
Aug. 23, 1918	Deed of trust	Barnes & Tibbets Shipbuilding & Dry Dock Co. and Oakland Title Insurance & Guaranty Co.	110,000.00		Nov. 14, 1920. Final payment 24 years after close of war.
do	Note	Barnes & Tibbets Shipbuilding & Dry Dock Co.	110,000.00		Do.
Apr. 18, 1919	15 receiver's certificates of indebtedness	Bay State Street Ry. Co.	67,000.14		
Oct. 19, 1918	Mortgage	Bayles Shipyards (Inc.), to U. S. Shipping Board Emergency Fleet Corporation.	285,000.00		June 1, 1919.
Aug. 22, 1918	do	do	375,000.00		Do.
June 29, 1918	do	do	500,000.00		Feb. 1, 1919.
Nov. 17, 1917	do	do	300,000.00		June 1, 1919.
June 29, 1918	Mortgage bond	do	500,000.00		Feb. 1, 1919.
Nov. 17, 1917	do	do	300,000.00		2 years after war.
Aug. 22, 1918	do	do	375,000.00		June 1, 1919.
Oct. 19, 1918	do	do	285,000.00		
Apr. 18, 1918	Surety bond	do	25,000.00		Final payment 44 years after war.
Mar. 30, 1918	Mortgage bond	do to U. S. Shipping Board Emergency Fleet Corporation.	350,000.00		
do	First mortgage	do to Clarence Merritt, trustee for Fleet Corporation.			
May 17, 1918	Bond	do to U. S. Shipping Board Emergency Fleet Corporation.	25,000.00		
July 24, 1919	Release from award	do	91,935.05		
Jan. 16, 1919	Surety bond	do	1,000.00		
Apr. 29, 1918	Chattel mortgage	do	500.00		
June 14, 1918	Assignment of mortgage (copy).	do			
May 24, 1918	Mortgage	Bethlehem Shipbuilding Corporation (Ltd.) to U. S. Shipping Board Emergency Fleet Corporation.	1,250,000.00		Final payment Dec. 31, 1932.
Apr. 27, 1918	2 certified checks	Berg, David, Industrial Alcohol Co.	{ 5,000.00 2,250.52 }		
Apr. 29, 1918	2 agreements	do			Do.
May 24, 1918	Bond	Bethlehem Steel Corporation to U. S. Shipping Board Emergency Fleet Corporation.	250,000.00		Do.
June 11, 1918	do	do	250,000.00		Do.
July 30, 1918	do	do	250,000.00		Do.
Aug. 30, 1918	do	do	250,000.00		Do.
July 1, 1919	do	do	250,000.00		Do.
May 11, 1918	do	do	250,000.00		Do.
June 20, 1916	Surety bond	Brandt, Edward Julius	10,000.00		
June 28, 1919	Power of attorney	Bruce Dry Dock Co. to T. A. Johnson			
do	Guarantee	do	150,000.00		
do	List of stock subscribers	do			
July 16, 1919	Surety bond	do	100,000.00		
Aug. 8, 1919	Surety bond (receipt only)	do	5,000.00		
Jan. 19, 1918	Affidavit	do			
Aug. 28, 1918	Surety bond	do	40,000.00		
June 28, 1918	Assignment	Test Corporation			
May 6, 1919	Surety bond	do	10,000.00		
July 2, 1919	do	do	3,000.00		

United States Shipping Board Emergency Fleet Corporation securities and valuable papers deposited at Girard Trust Co., Philadelphia, Pa., as of Sept. 29, 1919—Continued.

Box No.	Date of security.	Security.	Of—	Amount.	Interest rate.	Due date and remarks.
.....	Feb. 6, 1918	Release of mortgage.....	Central Trust Co. of Illinois to Lake & Ocean Navigation Co.	\$250,000.00	Per ct.	
.....	Mar. 21, 1918	Certificate of satisfaction.....	Central Trust Co. of Illinois as to claim against Lake & Ocean Navigation Co.			
6	.....	Capital stock.....		45,800.00		97½ shares, at \$50.
4	July 3, 1918	Mortgage.....	to Chester Shipbuilding Co.	2,500,000.00	5	July 3, 1928.
.....	Feb. 4, 1919	Mortgage bond.....	to U. S. Shipping Board Emergency Fleet Corporation	1,000,000.00	5	Do.
.....	July 3, 1918	Bond and warrant.....	to Chester Ship Building Co.	2,500,000.00	5	Do.
.....	June 23, 1919	Surety bond.....		500,000.00		
1	Nov. — 1917	Agreement.....	to Board Emergency Fleet Corporation			
4	July 3, 1918	Assignment of bond and mortgage (copy). Bond.....				
.....	Dec. 17, 1918	Capital stock.....	City of Chicago.	43,161.00		
.....	.....	.....	Clyde Co.	400,800.00		
4	Sept. 16, 1918	Note.....	Clyde Co. from Oakland Antioch Land Co.	750,000.00	5	4,008 shares, at \$100 (includes certificate for 1 share made out to R. M. Burgess and not indorsed). \$53,333.33 due Sept. 16, each year from 1920 to 1928, inclusive.
.....	do	Indenture.....	Clyde Co. and U. S. Ship Building Emergency Fleet Corporation.	750,000.00		
4	.....	Mortgage.....	Clyde Co. to U. S. Ship Building Emergency Fleet Corporation.	750,000.00		
.....	July 16, 1919	Chattel mortgage.....	do	10,000.00		
.....	Sept. 9, 1919	Surety bond.....	Coastwise Shipbuilding Co.	64,250.00		
.....	Oct. 4, 1917	do	Codd Co., E. J. (3 signed copies).	25,000.00		
.....	July 26, 1919	do	Columbia River Ship Building Co.	25,000.00		
.....	Aug. 8, 1919	do	do	25,000.00		
4	July 3, 1919	do	do	25,000.00		
.....	June 12, 1919	do	do	25,000.00		
4	Feb. 24, 1919	do	do	25,000.00		
.....	Mar. 26, 1919	do	do	25,000.00		
.....	May 26, 1919	do	do	25,000.00		
.....	Apr. 25, 1919	do	do	25,000.00		
4	Dec. 10, 1918	do	do	15,000.00		
.....	Mar. 7, 1917	Resolution by board of directors authorizing signature.....	Cornstock Co., L. K., and Massachusetts Bonding & Ins. Co. Carnegie Metal Works.			Tidewater Building Co.
.....	Apr. 23, 1919	Surety bond.....	Consolidated Gas Electric & Power Co. of Baltimore.	1,000.00		
.....	Apr. 16, 1919	Certificate of indebtedness.....	Consolidated Gas Electric & Power Co. of Baltimore.	13,997.72	5	3 years after war.

SHIPPING BOARD OPERATIONS.

2377

[illegible]

United States Shipping Board Emergency Fleet Corporation securities and valuable papers deposited at Girard Trust Co., Philadelphia, Pa., as of Sept. 29, 1919—Continued.

Box No.	Date of security.	Security.	Of.	Amount.	Interest rate.	Due date and remarks.
1	Dec. 28, 1917	Surety bond.	Dowington Iron Works (Inc.)	\$50,000.00	Per ct.	
1	Sept. 14, 1917	Certified copy of resolutions.	Dow Pump & Diesel Engine Co.			
1	Dec. 20, 1917	do.	do.	50,000.00		
1	do.	2 bonds, duplicate signed copies.	do.			
4	June 21, 1918	Contract.	Driscoll, Jas. J., & Dimick, Chas. Harcourt, with U. S. Shipping Board Emergency Fleet Corporation.	44,500.00		National Engineering Corporation.
3	1917	Liberty bonds.	Duthie & Co., J. F.	224,750.00	34	Due 1917; June, 1919, and succeeding coupons attached.
4	June 13, 1918	Mortgage.	Dundalk Co. to U. S. Shipping Board Emergency Fleet Corporation.	150,000.00	5	June 13, 1928.
4	do.	Mortgage bond.	do.	150,000.00	5	
4	Aug. 22, 1918	Bond.	Dupont, Arthur M.	20,000.00		
4	Nov. 16, 1918	do.	Driscoll & Chas. Harcourt Corporation.	5,000.00		
	Aug. 15, 1919	Surety bond (receipt).		5,000.00		
	Feb. 24, 1919	Surety bond.		130,000.00		
	Apr. 15, 1918	do.		1,000.00		
4	Mar. 13, 1919	do.	Idellity & Guaranty Co.	25,000.00		
		Capital stock.	by.	240,900.00		
6	Sept. 20, 1918	Note.	Emergency Transportation Co.	9,675.00	5	Certificates 8, 9, 10, and 14 indorsed in blank.
6	do.	Capital stock.	do.	10,100.00		90 days after war.
	Feb. 23, 1918	Performance bond.	do.	600,000.00		101 shares, at \$100.
	Nov. 30, 1917	do.	do.	800,000.00		
	June 24, 1918	Surety bond.	Erle Forge Co.	200,000.00		
	June 6, 1918	do.	Fairbanks Steam Shovel Co.	50,000.00		
6	do.	Capital stock.	Fairview Realty Co. (cert. No. 6 (245 shares) held by Philadelphia).	260,000.00		2,600 shares at \$100.
4	Apr. 2, 1918	Mortgage.	Fairview Realty Co. to U. S. Shipping Board Emergency Fleet Corporation.	4,500,000.00	5	Apr. 2, 1928.
4	do.	do.	do.	3,000,000.00	5	Do.
4	June 29, 1918	Assignment of bond (copy).	Fairview Realty Co.			
4	Apr. 2, 1918	Mortgage.	Fairview Realty Co. to New York Ship Building Co.	3,000,000.00		
	do.	Bond.	Fairview Realty Co. to U. S. Shipping Board Emergency Fleet Corporation.	4,500,000.00	5	Do.
	do.	do.	do.			
	do.	do.	do.	5,000,000.00	5	Do.
	do.	do.	do.	3,000,000.00	5	Do.
	Feb. 4, 1919	Deed (copy).	U. S. Shipping Board Emergency Fleet Corporation to Fairview Realty Co.			
	June 25, 1919	do.	do.			
	Mar. 3, 1919	do.	do.			
6		Capital stock.	Federal Home Building Co. (one share held by Philadelphia).	60,100.00		691 shares, at \$100.

SHIPPING BOARD OPERATIONS.

2879

No.	Date	Description	Amount	Payable to	Final payment 4 1/2 years after war.
1	Apr. 9, 1918	Supplemental mortgage	500,000.00	Federal Home Building Co. to U. S. Shipping Board Emergency Fleet Corporation.	5 Jan. 24, 1920.
2	do.	Mortgage bond	500,000.00	do.	5 Do.
3	July 18, 1918	Surety bond		Shipping Board Emergency Fleet	
4	do.	Bond assignment		Insurance, surety, to U. S. Shipping Board	
5	July 24, 1918	Surety bond	2,500.00	do.	
6	June 22, 1918	do.	1,000.00	do.	
7	Sept. 1, 1917	do.	176,400.00	do.	
8	July 16, 1918	do.	25,000.00	do.	
9	Mar. 8, 1918	do.	100,000.00	do.	
10	Aug. 25, 1918	do.	20,000.00	do.	
11	Dec. 19, 1917	do.	56,200.00	do.	
12	June 20, 1918	do.	73,644.50	do.	
13	Mar. 9, 1918	do.	75,022.19	do.	
14	Dec. 24, 1918	do.	5,000.00	do.	
15	Aug. 25, 1919	do.	55,000.00	do.	
16	July 7, 1919	do.	50,000.00	do.	
17	May 1, 1918	Mortgage	875,000.00	Galveston Dry Dock & Construction Co. to Texas Bank & Trust Co., trustees.	5 Final payment 4 1/2 years after war.
18	do.	Bond		Instruction Co. to U. S. Shipping Board Emergency	
19	Jan. 1, 1918	Agreement		and U. S. Shipping Board Emergency Fleet	
20	Mar. 23, 1919	Surety bond	5,000.00	General Manufacturing Co.	
21	Mar. 1, 1918	do.	5,000.00	General Ordnance Co.	
22	June 26, 1918	do.	60,000.00	General Ordnance Co.	
23	Aug. 27, 1918	Surety bond	4,975.00	General Ordnance Co.	
24	Nov. 25, 1918	do.	25,000.00	General Shipbuilding Co. (Inc.)	
25	Mar. 8, 1919	do.	2,000.00	Gerrish, Edwin H.	
26	Aug. 19, 1919	Certified check	5,000.00	Gilbert, Harry E.	
27	Aug. 2, 1919	do.	19,250.00	do.	
28	Sept. 2, 1919	do.	14,250.00	do.	
29	Mar. 14, 1919	Surety bond	100,000.00	Giller, Charles W.	
30	Dec. 13, 1917	Agreement		L. C., and U. S. Shipbuilding Emergency Fleet Cor-	
31	May 14, 1919	Surety bond	5,000.00	do.	
32	Aug. 11, 1919	Surety bond (receipt only)	5,000.00	do.	
33	July 22, 1919	Receiver's note	49,000.00	Groton Iron Works.	5 On demand.
34	do.	do.	40,000.00	do.	5 Do.
35	May 11, 1918	Consent of stockholders		Groton Iron Works (as to mortgage)	
36	do.	Certificate of secretary		Groton Iron Works (as to stockholders)	
37	do.	Certified copy of resolution		Groton Iron Works (as to loan)	
38	Dec. 2, 1918	Guarantee of bond and mortgage		Groton Iron Works.	
39	May 13, 1918	Certified copy of resolution		Groton Iron Works (as to mortgage)	
40	June 15, 1917	Affidavit		Groton Iron Works (by B. W. Morse, secretary)	
41	May 29, 1919	Receiver's note	1,416.92	Groton Iron Works	5 Do.
42	Sept. 5, 1918	Mortgage	800,000.00	Groton Iron Works to U. S. Shipbuilding Emergency Fleet Corporation.	5 Dec. 1, 1919.
43	Apr. 4, 1918	do.	1,000,000.00	do.	5 Dec. 1, 1918.
44	Feb. 25, 1919	Demand note	150,000.00	Groton Iron Works	5 Demand.
45	Apr. 9, 1919	Receiver's certificate		Groton Iron Works as to P. Le Roy Harwood, and Fred Conlon, receiver.	

United States Shipping Board Emergency Fleet Corporation securities and valuable papers deposited at Girard Trust Co., Philadelphia, Pa., as of Sept. 29, 1919—Continued.

Box No.			Amount.	Interest rate.	Due date and remarks.
			1,250,000.00	Per ct. 5	Final payment Nov. 27, 1928; inspected receipt of Harry Helwig, assistant counsel for 100 shares of stock.
		Capital stock (receipt only)			
	Dec. 17, 1918	Surety bond	25,000.00		
	Oct. 7, 1918	do	30,000.00		
	Oct. 31, 1917	Mortgage	80,000.00		
	do	Mortgage bond	80,000.00		Aug. 1, 1918.
4	May 11, 1918	Bond	100,000.00		
1	Aug. 23, 1917	Affidavit			
2	Nov. 23, 1917	do			
	Apr. 11, 1919	Surety bond	89,735.00		
	June 21, 1918	do	4,070.00		
4	Apr. 28, 1918	Deed of trust	120,000.00	8	Nov. 1, 1918.
1	do	Note	120,000.00	8	Do.
4	May 10, 1918	Mortgage	100,000.00	8	Final payment, 34 years after war.
	do	First mortgage, gold bond	100,000.00	6	Do.
	Nov. 24, 1917	Surety bond	50,000.00		
	Oct. 30, 1918	do	4,500.00		
	Mar. 19, 1918	Surety bond (receipt only)	534,000.00		
1	Oct. 19, 1917	Note	90,000.00	6	Jan. 1, 1919.
4	July 28, 1918	Mortgage	200,000.00	6	
	Oct. 19, 1917	Mortgage deed	90,000.00	6	Do.
1	June 27, 1917	Affidavit			
	May 14, 1919	Surety bond	5,000.00		
	Nov. 13, 1918	do	50,000.00		
4	July 16, 1919	do	1,000.00		
	Apr. 24, 1919	do	1,000.00		
4	July 24, 1919	Release from award	51,311.04		
	Feb. 1, 1918	Surety bond	10,000.00		
1	Aug. 15, 1918	Deed of trust			
	do	2 paid notes	30,000.00		
	July 13, 1917	Mortgage	300,000.00		\$15,000 each
	Aug. 14, 1918	Surety bond	10,000.00		

Receipt for note.	Jahcke Shipbuilding Co.	200,000.00	Receipt of T. Ed New, as- sistant comptroller. Note forwarded to assistant comptroller for collection.
Demand note	do	250,000.00	
Surety bond	Jahcke-Chambers Co. (Inc.)	20,000.00	
Affidavit	Johnson Shipyards Corporation (by Robert MacGruder, general manager)		
Surety bond	do	2,500.00	
Certificate of satisfaction	do		
Affidavit	do		
Surety bond	do		
do	do		
do	do		
do	do		
Resolution of B/D as to con- tract.	do		
Bond	do		
Surety bond	do		
do	do		
Deed of trust (copy)	do		
Surety bond	do		
do	do		
do	do		
do	do		
do	do		
First mortgage and refund- ing gold bonds.	do		
Capital stock	do		
Mortgage	do		
Bond	do		
Supplemental mortgage	do		
Supplemental bond and warrant	do		
Bond and warrant	do		
Capital stock	do		
Mortgage	do		
Surety bond	do		
Certified check	do		
Surety bond	do		
Release	do		
Surety bond	do		
do	do		
do	do		
Certificate	do		
Declaration of trust	do		
Mortgage (copy)	do		
Mortgage and ratification (bond and certified copy)	do		

United States Shipping Board Emergency Fleet Corporation securities and valuable papers deposited at Girard Trust Co., Philadelphia, Pa., as of Sept. 29, 1919.—Continued.

Box No.	Date of security.	Security.	Amount.	Interest rate.	Due date and remarks.
1	Feb. 18, 1918	Note.	\$100,000.00	Per ct. 8	Apr. 19, 1918.
	Dec. 3, 1917	Surety bond.	5,000.00		
	July 27, 1917	Affidavit.			
	Aug. 27, 1917	Assignment.			
	do.	Assignment of payment.			
	do.	Note.	20,000.00		
	do.	Chattel mortgage.			
	Dec. 12, 1917	Surety bond.	30,000.00	8	June 27, 1918.
	June 8, 1918	do.	30,000.00	8	Do.
	Dec. 28, 1918	do.	5,000.00		
	July 1, 1918	do.	80,000.00		
	Jan. 18, 1918	do.	10,000.00		
	Apr. 16, 1918	Performance bond.	538,200.00		
	Apr. 21, 1919	Bond.	100,000.00		
	Sept. 19, 1918	Note.	50,000.00		
8	Apr. 24, 1919	Mortgage.	15,000.00		
	Mar. 31, 1919	Surety bond.	25,000.00	6	July 7, 1919.
	Apr. 24, 1919	Bond.	260,000.00	6	6 months after war.
8	July 30, 1918	Assignment of mortgage (copy).			
	Apr. 8, 1918	Surety bond.	100,000.00		
	Jan. 9, 1918	Assignment.	200,000.00		
1	June 1, 1917	4 contracts.	700,000.00		
	May 15, 1919	Surety bond.	54,000.00		
	do.	do.			
8	Oct. 23, 1917	Mortgage.			
	do.	do.	9,100.00		
	do.	do.	2,172.00		
	do.	do.	1,850,000.00		
	do.	do.			
	do.	do.	1,850,000.00		
	Aug. 6, 1919	Surety bond.	500,000.00		
7		Mortgage and refunding 5-year gold bonds.	170,000.00		
11		do.	2,850,000.00		
		do.			

Due 1922; November, 1918, and succeeding coupons attached.
Due 1922; May, 1918, and succeeding coupons attached.

7	do.	Merrill-Stevens Shipbuilding Co. (Louisiana Shipbuilding Corporation).	800,000.00		Due 1923: August, 1918, and succeeding coupons attached.
12	do.	Merrill-Stevens Shipbuilding Co.	100,000.00		Due 1922: May, 1920, and succeeding coupons attached.
7	Capital stock.	Merrill-Stevens Shipbuilding Co. (Louisiana Shipbuilding Corporation).	1,400,000.00		Not indorsed to E. F. C. Certificates 8, 9, 10, 14 indorsed in blank.
1	2 affidavits.	Merrill-Stevens Shipbuilding Co. (by J. T. Manier, secretary).	700,000.00		
8	Assignment of mortgage (copy).	Merrill-Stevens Shipbuilding Co.		7	Nov. 16, 1923.
8	Mortgage (copy).	Merrill-Stevens Ship Building Co. (to Virginia Trust Co., trustee).	3,000,000.00		
	Surety bond.	Merrill-Stevens Ship Building Co.	175,000.00		
	do.	Midwest Engine Co. (receipt only).	1,200,760.00		
	do.	do.	5,000.00		
	do.	do.	2,000.00		
	do.	do.	2,000.00		
	do.	do.	2,000.00		
	Note.	do.	640,000.00	6	Nov. 30, 1920. 9,000 shares of no par value.
6	Capital stock.	Co. (stock of Birmingham Steel Co.) (held by Phil. Co. to U. S. Shipping Board Emergency Fleet	640,000.00	6	Nov. 30, 1920.
8	Mortgage.	Co. to U. S. Shipping Board Emergency Fleet			
	Surety bond.	McClint, W. G.	5,000.00		
	do.	Montague, Albert F.	5,000.00		
8	Mortgage (copy).	Moore & Scott Iron Works and Moore & Scott Ship & Dry Dock Co. to U. S. Shipbuilding Emergency Fleet Corporation.	1,352,762.00		
8	Bond.	Moore & Scott Iron Works	1,352,762.00		
	do.	do.			
	Capital stock.	Mooreland Realty Co. of Bath.	25,000.00		25,000 shares at \$1.
	Blanket mortgage.	Mooreland Realty Co. to the Texas Steamship Co.	1,000,000.00	5	Aug. 16, 1928.
	Bond.	do.	1,000,000.00	5	Do.
	Mortgage gold bonds of company.	Moore Co. The/insurance was made of assignment in blank of bonds 24 in name of Mrs. Charlotte E. Richards. 1,410,411,412,413,414,424,425,426,427,428, of F. Waterhouse & Co.).	140,000.00	4	Due 1926: April, 1919, and succeeding coupons.
5	First mortgage gold bond.	Moran Co., The.	250,000.00	4½	April, 1919, and succeeding coupons attached.
	Surety bond.	Moritz, Anna E.	10,000.00		
	do.	Motorship Construction Co.	31,000.00		
	Deed (copy).	Mundy, J. A. and Mary E.			
6	Debtenture notes.	Municipal Service Co. (June, 1919, coupons detached).	54,000.00	6	Due 1928: June, 1919, and succeeding coupons attached.
	Surety bond.	Narragansett Shipbuilding Co.	60,000.00		
	do.	do.	50,000.00		
	do.	do.	57,000.00		
6	Capital stock.	Newburgh Housing Corporation.	44,700.00		
8	Mortgage.	Newburgh Housing Corporation to Newburgh Shipyard (Inc.).	1,200,000.00		447 shares at \$100.

¹ Line stricken out, written in margin: "This item O. K.—on all other lists."

² Line stricken out.

United States Shipping Board Emergency Fleet Corporation securities and valuable papers deposited at Girard Trust Co., Philadelphia, Pa., as of Sept. 29, 1919—Continued.

Box No.	Date of security.	Security.	Of—	Amount.	Interest rate.	Due date and remarks.
.....	Apr. 30, 1919	Bond (original and 1 un- signed copy).	Newburg Housing Corporation to U. S. Shipping Board Emergency Fleet Corporation.	\$250,000.00	Per ct. 5	Sept. 1, 1928.
.....	do.	Mortgage.	do.	250,000.00	5	Do.
.....	Nov. 7, 1918	Bond.	Newburg Housing Corporation, to Newburg Shipyards (Inc.)	1,200,000.00	5	Do.
8	June 25, 1918	Mortgage (copy).	Newburg Shipyards (Inc.) to U. S. Shipping Board Emergency Fleet Corporation.	550,000.00	.....	.....
8	Nov. 7, 1918	Assignment of mortgage (copy).	do.	1,200,000.00	.....	.....
8	Feb. 2, 1914	First and refunding mortgage (copy).	Newport News & Hampton Railway, Gas & Electric Co.	7,500,000.00	.....	.....
.....	Sept. 4, 1918	Surety bond.	New York & New Jersey Construction Co.	60,000.00	.....	.....
8	June 28, 1919	Insurance policy.	New York Shipbuilding Corporation, Hull 203.	15,578.00	.....	.....
8	do.	do.	do.	16,000.00	.....	.....
8	Oct. 18, 1918	Deed.	Nichol, R. E., and Anna C., to U. S. Shipping Board Emergency Fleet Corporation.	.....	.....	.....
8	Dec. 4, 1918	do.	do.	3,000.00	.....	.....
.....	Feb 19, 1919	Surety bond.	do.	10,000.00	.....	.....
8	Jan. 17, 1919	Mortgage.	do.	2,000,000.00	5	Sept. 27, 1928.
8	Sept. 27, 1918	do.	Fleet Corporation.	3,000,000.00	5	Do.
8	do.	Bond.	do.	219,850.00	.....	4,399 shares at \$50.
8	June 5, 1918	Capital stock.	North Chester Realty Co.	5,500,000.00	5	June 5, 1928.
8	Dec. 26, 1918	Mortgage.	North Chester Realty Co. to Sun Shipbuilding Co.	4,500,000.00	5	Do.
.....	Apr. 3, 1919	Bond.	North Chester Realty Co. to U. S. Shipping Board Emergency Fleet Corporation.	1,000,000.00	5	Do.
.....	Dec. 26, 1918	do.	do.	3,500,000.00	5	Do.
.....	Apr. 3, 1919	Mortgage (copy).	do.	5,000,000.00	.....	.....
.....	May 17, 1918	Certificate of incorporation.	do.	.....	.....	.....
.....	June 5, 1918	Bond and warrant.	North Chester Realty Co. to Sun Ship Building Co.	5,500,000.00	5	Do.
8	Apr. 3, 1919	Sup. mortgage.	North Chester Realty Co. to U. S. Shipping Board Emergency Fleet Corporation.	.....	.....	.....
.....	Apr. 12, 1919	Surety bond.	do.	250,000.00	.....	.....
8	Mar. 25, 1918	do.	do.	250,000.00	.....	.....
8	Nov. 16, 1917	do.	York.	725,000.00	.....	.....
8	July 17, 1919	do.	of Maryland.	10,000.00	.....	.....
8	Nov. 21, 1917	do.	do.	50,000.00	.....	.....
8	Aug. 14, 1918	do.	do.	50,000.00	.....	.....
8	Jan. 15, 1918	Mortgage.	do.	625,000.00	.....	.....
8	Jan. 23, 1918	Quaranty policy.	Pensacola Ship Building Co. to U. S. Shipping Board Emergency Fleet Corporation.	35,592.00	.....	.....
8	Jan. 15, 1918	Bond.	Pensacola Ship Building Co. to Title Guaranty Co. of Florida.	625,000.00	.....	.....
8	Jan. 15, 1918	Bond.	Pensacola Ship Building Co.	.....	.....	.....

8	Sept. 24, 1918	do	to U. S. Shipping Board Emergency Fleet	800,000.00	
8	do	Mortgage			
8	Nov. 20, 1918	Surety bond	ing Co. (Inc.)	4,000.00	
8	Nov. 28, 1918	do		5,000.00	
8	June 12, 1919	do		10,000.00	
1	July 17, 1917	Affidavit	(By Frank A. Rumery, president, and Clin-		
8	Jan. 10, 1918	Bonds (original and 1 copy)	et al.	24,000.00	
1	Aug. 9, 1917	Deed of trust	Wm. Butzer and U. S. Shipping Board Emer-	250,000.00	
8		2 certificates	(By secretary of company as to authority		
8	Aug. 9, 1917	Bonds (copy)	holders for company.)	50,000.00	
8	Mar. 21, 1918	Miscellaneous papers		285,000.00	
8	Apr. 18, 1918	Surety bond	and Public Service Corporation of New Jersey	1,240,780.00	
	Jan. 31, 1918	do		100,000.00	
	Feb. 28, 1918	34 notes of \$1,000 each		170,000.00	
	Mar. 29, 1918	19 notes of 1		95,000.00	
	Apr. 30, 1918	9 notes of 1		45,000.00	
	May 31, 1918	18 notes of 1		90,000.00	
8	Sept. 27, 1918	Stock Noreg Realty Co.		70,500.00	
		Assignment of bond and		3,000,000.00	
		mortgage (copy)			
8	Aug. 2, 1918	Bond	poration to U. S. Shipping Board Emergency Fleet	5,000,000.00	5
8	do	Mortgage		5,000,000.00	
8	May 22, 1919	Surety bond (receipt only)		3,000.00	
8	July 25, 1919	Surety bond	g & Repair Co.	150,000.00	
8	Mar. 8, 1919	do		2,000.00	
8	Apr. 18, 1918	do		1,000.00	
8	Aug. 17, 1918	do		1,000.00	
8	Sept. 16, 1917	do	Ripley Boat Co. (Inc.)	62,623.00	
8	July 15, 1918	do	Ripinger, John	1,000.00	
	Dec. 24, 1918	Note	Riverview Realty Co. (notes of Manitowac Gas Co., payable to and	2,500.00	6
			Indorsed by Riverview Realty Co.)		
	do	do			
	do	do			
8	Apr. 1, 1919	Bond	Riverview Realty Co. to Manitowac Shipbuilding Co.	2,500.00	5
8	Aug. 30, 1918	Mortgage		2,500.00	5
8	do	Capital stock		2,500.00	5
6	Nov. 18, 1918	Surety bond	Riverview Realty Co.	700,000.00	5
			Sabin, F. & Co. (Inc.), and Howard Miller to J. P. Kyrle Price and W.	700,000.00	
			Perdval Johnson.	21,400.00	
2	Nov. 8, 1918	do	fewater Building Co.	35,000.00	
2	May 10, 1918	Assignments of contract		30,000.00	
4	Mar. 23, 1918	Contract (copy)	y Fleet Corporation		
8	July 15, 1919	Surety bond	owing Co.)	12,500.00	
8	Aug. 7, 1918	Right of way (copy)			
8	Aug. 16, 1918	do			
8	Aug. 13, 1918	Indenture	ing Co.), 2 copies		

Jan. 31, 1919; all protested.
Feb. 28, 1919; all protested.
Mar. 29, 1919; all protested.
Apr. 30, 1919.
May 31, 1919
705 shares at \$100.

May 1, 1923.

Dec. 1, 1920, due

Dec. 1, 1921, due
Dec. 1, 1922, due.
Dec. 1, 1923, due.
July 30, 1923.

214 shares, at \$100

SHIPPING BOARD OPERATIONS.

United States Shipping Board Emergency Fleet Corporation securities and valuable papers deposited at Girard Trust Co., Philadelphia, Pa., as of Sept. 29, 1919—Continued.

Box No.	Date of security.	Security.	Of—	Amount.	Interest rate.	Due date and remarks.
3	Nov. 14, 1918	Agreement.....	Sands, Nicholas, and U. S. Shipping Board Emergency Fleet Corporation.	\$2,400.00	Per ct.	
3	Nov. 23, 1917	Covenant.....	Sandy Point Shipbuilding Co to U. S. Shipping Board Emergency Fleet Corporation.	25,000.00		
3	Nov. 20, 1917	Mortgage deed.....	do.	25,000.00		
3	Sept. 21, 1918	Surety bond.....	Schneider, Henry P., and John H. Hinkle, trustees.	250,000.00		
3	Apr. 29, 1919	do.	Seaborn Shipyards Co.	12,500.00		
3	Feb. 17, 1919	do.	do.	12,500.00		
3	Apr. 29, 1919	do.	do.	12,500.00		
3	Feb. 17, 1919	do.	do.	12,500.00		
12		10-year first mortgage gold bonds.	Seattle Construction & Dry Dock Co.	5,000.00	6	Due 1922; July, 1919, and succeeding coupons attached.
1	Dec. 14, 1917	2 powers of attorney to Canadian Bank of Commerce.	do.			
3	July 29, 1919	Surety bond.....	Servoss, D. S.	5,000.00		
3		Capital stock.....	Shipbuilding Housing Corporation.	3,000.00		30 shares, at \$100.
6	Apr. 17, 1919	Collateral agreement of stockholders.	do.			
3	Apr. 27, 1918	Bond.....	to U. S. Shipping Board Emergency	1,000,000.00	5	Apr. 27, 1928.
3	Nov. 22, 1918	do.	do.	500,000.00	5	Do.
3	do.	Deed of trust.....	Shipbuilding Housing Corporation to Security Trust & Savings Bank of	500,000.00	5	Apr. 27, 1918.
3	Apr. 9, 1919	Collateral agreement of stockholders.	do.			
3		Capital stock.....	Shipbuilding Realty Corporation to Newport News Shipbuilding & Dry Dock Co. (Housing).	3,000.00		30 shares, at \$100.
3	Apr. 9, 1918	Bond.....	do.	40,100.00		Apr. 9, 1928.
3	Nov. 22, 1919	Deed of trust.....	Shipbuilding Realty Corporation and Security Trust & Savings Bank of Newport News, Va. (Realty).	1,300,000.00	5	Do.
3	Apr. 9, 1918	do.	Shipbuilding Realty Corporation and Security & Savings Bank of Newport News.	1,500,000.00	5	Do.
3	Aug. 26, 1919	Certificate of indebtedness.	Shipbuilding Realty Corporation.	6,262.25	5	3 years after close of war.
3	do.	do.	do.	6,106.17	5	Do.
3	do.	do.	do.	9,066.94	5	Do.
3	Apr. 9, 1918	Bond.....	Shipbuilding Realty Corporation to U. S. Shipping Board Emergency Fleet Corporation.	1,500,000.00	5	Apr. 9, 1928.
3	July 10, 1918	do.	do.	750,000.00	5	Do.
3	Nov. 22, 1918	do.	do.	1,300,000.00	5	Do.
3	June 20, 1919	Deed of trust.....	Shipbuilding Realty Corporation and Security Trust & Savings Bank of Newport News, Va.	250,000.00	5	Do.

SHIPPING BOARD OPERATIONS.

2387

[illegible]

SHIPPING BOARD OPERATIONS.

Box No.	Date of security.	Security.	Of—	Amount.	Interest rate.	Due date and remarks.
2	June 6, 1918	Agreement.....	Standard Water Systems Co. to U. S. Shipbuilding Emergency Fleet Corporation.	\$25,000.00	Per ct.	
2	Dec. 2, 1918	Bond.....	Standifer, G. M., Construction Co.....	1,300,000.00		
2	Mar. 29, 1918	Stockholders' guaranty (copy).	do.....			
2	Oct. 18, 1918	Mortgage.....	do.....	1,300,000.00		
2	Mar. 1, 1918	Surety bond.....	Steers, Henry (Inc.).....	100,000.00		
2	May 22, 1918	do.....	Sterling, J. A.....	5,000.00		
2	Nov. 15, 1918	do.....	Stewart Davit & Equipment Co.....	65,000.00		
2	June 5, 1918	do.....	do.....	58,500.00		
2	Aug. 3, 1918	do.....	do.....	65,000.00		
2	Feb. 14, 1918	do.....	do.....	65,000.00		
2	Jan. 11, 1918	do.....	do.....	65,000.00		
2	June 14, 1918	do.....	Submarine Boat Corporation.....	4,050,000.00		
2	Sept. 27, 1917	do.....	do.....	1,500,000.00		
2	June 14, 1918	do.....	do.....	1,500,000.00		
2	Nov. 28, 1917	do.....	Summer Iron Works (3 signed copies in all)	50,000.00		
2	Sept. 20, 1918	Mortgage.....	Sun Shipbuilding Co.....	2,000,000.00	6	Sept. 20, 1923.
2	Dec. 4, 1918	Surety bond.....	do.....	18,000.00		
2	do.....	do.....	do.....	18,000.00		
2	Dec. 20, 1918	Bond.....	do.....	2,000,000.00	6	Sept. 1, 1923.
2	Mar. 7, 1919	Surety bond.....	do.....	18,195.00		
2	May 21, 1919	do.....	do.....	18,195.00		
10	.....	do.....	do.....	60,000.00	5	Due 1925. ¹
10	.....	do.....	do.....	60,000.00	5	Due 1926. ¹
10	.....	do.....	do.....	60,000.00	5	Due 1927. ¹
10	.....	do.....	do.....	53,000.00	5	Due 1928. ¹
1	July 28, 1917	Affidavit.....	Tampa Dock Co. (A. J. Knight, president)	15,000.00		
2	May 16, 1919	Note demand.....	Tampa Dock Co.....	10,000.00	6	Demand.
2	June 2, 1919	do.....	Tampa Dock Co. (above two notes indorsed by A. J. Knight, J. C. Vinson, L. E. Knight, and E. J. Hyer)		6	Do.
2	Aug. 15, 1918	do.....	Tampa Dock Co. (guaranteed by A. J. Knight, L. E. Knight, E. J. Flyer, J. L. McGucken, and J. C. Vinson (by E. J. Frazee, attorney).	62,500.00	6	Aug. 15, 1919.
2	June 26, 1918	Bond.....	Tampa Dock Co., U. S. Shipping Board Emergency Fleet Corporation.....	100,000.00	6	Final payment due 4½ years after war.
2	do.....	Mortgage deed.....	do.....	100,000.00		
2	July 1, 1918	Deed of trust (copy).....	Tampa Dock Co. to Citizens Bank & Trust Co.....	400,000.00		
12	.....	First mortgage gold bonds.....	Tampa Dock Co.....	20,000.00	6	Due 1928. ⁴
.....	.....	do.....	do.....	100,000.00	6	Due 1933. ²
.....	.....	do.....	do.....	15,000.00	6	Due 1938. ²
.....	.....	do.....	do.....	50,000.00	6	Due 1943. ²
2	Dec. 13, 1918	Surety bond.....	Tapscott, Franklin.....	2,000.00		

SHIPPING BOARD OPERATIONS.

United States Shipping Board Emergency Fleet Corporation securities and valuable papers deposited at Girard Trust Co., Philadelphia, Pa., as of Sept. 29, 1919—Continued.

Box No.	Date of security.	Security.	Of-	Interest rate.	Due date and remarks.
2	Mar. 13, 1919	Note	Virginia Ry. & Power Co. to U. S. Shipping Board Emergency Fleet Corporation.	\$300,000.00	Final payment 10 years after close of war.
6		Capital stock of St. Paul Shipbuilding Co., Inc.	Virginia Shipbuilding Co.	111,300.00	1,113 shares, at \$100.
2	May 15, 1918	Promissory note	Virginia Shipbuilding Co. to U. S. Shipping Board Emergency Fleet Corporation.	750,000.00	May 1, 1919.
2	Jan. 10, 1919	Note	do.	750,000.00	July 10, 1919.
2	do.	Deed of trust.	Virginia Shipbuilding Co. to G. L. Boothe, trustee.	750,000.00	
2	May 15, 1919	do.	Virginia Shipbuilding Co. to G. L. Boothe and S. G. Brent, trustees.	750,000.00	
1	July 14, 1917	Certified inventory of security.	Vulcan Iron Works.		
2	Sept. 27, 1918	Surety bond.	do.	40,000.00	
2	Oct. 2, 1918	do.	Watson, James V.	100,000.00	
2	Mar. 27, 1918	do.	Welsh Marine Equipment Co.	130,000.00	
2	May 1, 1919	do.	Wells, G. Arthur.	5,000.00	
2	May 16, 1919	do.	Werner, John Charles.	10,000.00	
2	Sept. 2, 1918	Bond, part I.	West Chester Electric Supply Co. to Mark C. Tredemnick Co.	2,432.00	
2	do.	Bond, part II.	do.	2,432.00	
5			Westinghouse Electric & Manufacturing Co.	121,000.00	2,420 shares, at \$50.
2	July 13, 1918	mortgage (copy).	ng Co. to U. S. Shipping Board		
2	do.	do.	Co.		
2	Apr. 27, 1918	Surety bond.		56,500.00	
5		First mortgage and collateral trust gold bonds.		117,000.00	Due 1923; Aug., 1919, and succeeding coupons attached.
12		do.		2,000.00	Do.
2	Nov. 13, 1917	Surety bond.	do.	40,000.00	
2	Aug. 5, 1918	Assignment of bonds and mortgages.	Williams, H. M., account Bayles Shipyard		
6		Capital stock.	Wilmington Housing Co. (copy).		
2	Jan. 8, 1919	Mortgage (copy).	Wyandotte Home Co. (1 share held at Philadelphia office)	48,200.00	432 shares, at \$100.
2	do.	Bond.	Wyandotte Home Co. to American Shipbuilding Co.	475,000.00	Not in book.
2	May 12, 1919	Surety bond.	do.	475,000.00	Jan. 8, 1929.
			Ziker, W. Gerald.	2,500.00	

Received the securities and valuable papers listed above, Nov. 25, 1919.

R. W. BOLLING.

United States Shipping Board Emergency Fleet Corporation securities and valuable papers held in cashier's safe, Philadelphia, Pa., as of Nov. 24, 1919.

Date of security.	Security.	Of—	Amount.	Interest rate.	Due date and remarks.
Oct. 3, 1919	Bond.....	American Lumber Sales Co. principal, and Stephen Robinson, Jr., John B. Walker, and J. Russell Handley, sureties, to U. S. Shipping Board	\$200,000.00	Per ct.	
Oct. 1, 1919	Contract (copy).....	S. Shipping Board Emergency Fleet			
Sept. 16, 1918	.....do.....	Shipping Board Emergency Fleet Cor-			
Oct. 3, 1919	Surety bond.....	.....	50,000.00		
Aug. 20, 1919	Indemnity bond.....	.....	1,000.00		
July 23, 1919	Surety bond (copy).....	.....	5,000.00		
Sept. 24, 1919	Surety bond.....	Burger Boat Co.....	20,000.00		
Oct. 15, 1919	.....do.....	do.....	58,000.00		
Oct. 3, 1919	.....do.....	Craft, A. J.....	5,000.00		
Sept. 29, 1919	Surety bond (2 signed copies).....	Commonwealth Construction Co.....	2,716.08		
Sept. 19, 1919	Surety bond.....	.....	25,000.00		
Do.....	Affidavit and justification.....	.....		
Oct. 16, 1919	Surety bond.....	.....	25,000.00		
Oct. 9, 1918	Surety bond of employees (copy).....	.....	35,000.00		
Oct. 16, 1919	Bond (also 1 copy).....	.....	800,000.00	0	Apr. 16, 1920.
July 30, 1919	Mortgage.....	.....	600,000.00		
Mar. 12, 1919	Bond.....	.....	10,000.00		
Do.....	.....do.....	.....		
Feb. 5, 1918	Receipt (also 1 copy).....	.....	6,950.00		
Dec. 28, 1917	Resolution of board of directors.....	.....	500,000.00		Also memoranda relative to this payment.
Do.....	Miscellaneous papers.....	.....		
Feb. 14, 1917	Agreement.....	.....		
Oct. 17, 1916	Canceled checks.....	.....	122,638.00		
May 25, 1917	Canceled check.....	.....	122,638.00		
June 19, 1917	.....do.....	.....	122,638.00		
Mar. 16, 1916	Agreement.....	Harland & Hollingsworth Corporation and United Fruit Co.....			
Apr. 17, 1916	.....do.....	do.....			
Oct. 29, 1919	Bond.....	Huse, Harry M., and A. S. Merrill, surety.....	4,000.00		
Sept. 11, 1919	Surety bond.....	Leathen & Smith Towing and Wrecking Co.....	48,000.00		
Sept. 18, 1919	.....do.....	McIntosh & Seymour Corporation.....	310,500.00		
Sept. 24, 1919	.....do.....	Mannell, Lee Robert.....	2,000.00		
Oct. 23, 1919	.....do.....	Mahan, Frank H.....	10,000.00		
Sept. 18, 1919	.....do.....	McIntosh & Seymour Corporation.....	289,400.00		

United States Shipping Board Emergency Fleet Corporation securities and valuable papers held in cashier's safe, Philadelphia, Pa., as of Nov. 24, 1919—
Continued.

Date of security.	Security.	Of—	Amount.	Interest rate.	Due date and remarks.
June 26, 1919	Deed (copy)	Emergency Fleet		Per ct.	
Feb 14, 1917	Agreement				
May 19, 1917	Canceled check		\$340,000.00		
Dec. 13, 1917	Memorandum	& Sons for			
Do.....	Affidavit	Fleet Cor-			
Do.....	Agreement				
Do.....	Affidavit	for United			
Do.....	Specification				
Oct. 4, 1919	Surety bond	Moran, John J.	2,500.00		
Jan. 28, 1918	Mortgage	Moore & Scott Iron Works to U. S. Shipping Board Emergency Fleet Corporation.			
Mar. 4, 1918	do	Lister, J. Morgan, and Lowrie Montgomery to Hannah T. Kochersperger.	9,000.00		
June 26, 1918	Bond	Newburgh Shipyards (Inc.), to U. S. Shipping Board Emergency Fleet Corporation.	550,000.00		
Do	Mortgage	do	350,000.00		
Oct 30, 1917	Bond	do	500,000.00		
Do	Mortgage	do	500,000.00		
Mar. 27, 1918	Bond	do	500,000.00		
Do	Mortgage	do	500,000.00		
Sept. 23, 1919	Surety bond	Northwest Engineering Works.	30,000.00		
Oct. 3, 1919	do	do	75,000.00		
Oct. 5, 1909	Mortgage	Walsh, James, to the Divinity School of the Protestant Episcopal Church	128,000.00		
Oct. 21, 1919	Surety bond	owing and Wrecking Co.	43,500.00		
July 25, 1919	Guaranty bond	(in behalf of employees to Pusey & Jones Co.)	12,000.00		
May 13, 1919	Surety bond (copy)		2,000.00		
Oct. 24, 1919	Surety bond	Skinner & Eddy Corporation	2,500.00		
July 18, 1919	do	do	25,000.00		
Sept 18, 1919	do	do	25,000.00		
Sept 24, 1919	do	do	25,000.00		
Oct 11, 1919	do	do	25,000.00		
Oct. 22, 1919	do	do	25,000.00		
Sept. 29, 1919	do	do	25,000.00		
Oct. 20, 1919	do	do	25,000.00		
Oct. 20, 1919	Agreement	Societe Les Affreteurs Reunis and U. S. Shipbuilding Emergency Fleet Corporation	1,000,000.00		
June 12, 1918	do	Southern Shipyard Corporation to U. S. Shipbuilding Emergency Fleet Corporation.	275,275.00	6	
Oct. 15, 1919	First mortgage bond				

[illegible]

1 Noted in margin: "Should be 50,000."

NOTE.—All of the above certificates of deposit marked (*) are payable to and endorsed by Maryland Casualty Co.

Received the securities and valuable papers listed above, November 28, 1919.

B. W. BOLLING.

Mr. KELLEY. Those securities amounted to \$240,000,000?

Mr. GILLEN. I have made a rough addition; they are all itemized there; the addition of \$240,000,000 has been made by my secretary while we have been here this morning. There are 14 pages, and there are about 50 items on each one of those pages. These securities consisted of the mortgages that were taken back on the shipyard plants of the country for advances we had made, of notes for loans that we had made to contractors, of Liberty bonds for purchases, of Liberty bonds that were up behind bonds given for performance, and security bonds.

May I continue?

Mr. KELLEY. Yes.

Mr. GILLEN. There is not much comment to be made on these things.

Mr. KELLEY. No.

Mr. GILLEN. They are just outstanding facts, and here are the physical records to support them. Prior to Mr. Tweedale taking the position of treasurer, the treasurer's position was a unique one with the fleet. He was merely an issuer of checks, and the checks were issued, in many cases, without his having the proper supporting data which a treasurer should have upon which the checks were issued.

And in that regard may I say that from our analysis we do not find any fraud, and we find that the payments were made in due course. It was, as I said this morning, that what they were interested in was getting contracts for the building of ships, letting contracts for the building of yards, letting contracts for equipment; and then, as men came up and needed the moneys, they would ask for the moneys necessary to carry these projects through under contract, and checks would be issued. The comptroller of the Shipping Board handling operations and the comptroller of the Emergency Fleet handling construction practically ran the financial part of their two divisions independent of the treasurer. There was no record in the treasurer's office of the \$175,000,000; that is, the cash and the bonds in the hands of operators, nor the many millions in imprest funds—how many millions I don't know what it ran to. It must have run them to two or three hundred millions of dollars of imprest funds, in the hands of contractors carrying through, subject to contractor's call, in the ship-building districts of the country.

On July 1, to show you what the accounting and the treasurer's offices or—I will come a bit further—what the accounting and treasurer's office, those two divisions, meant; on July 1, 1918, Congress passed a law requiring the Comptroller of the Treasury to make an audit of the Shipping Board and Emergency Fleet disbursement of funds appropriated. On August 1, 1919, Mr. Alonzo Tweedale was appointed treasurer of the Emergency Fleet. Up to that time the law had not been complied with, and not one single month's transactions from the treasurer's office had been filed with Comptroller Warwick; not one.

Mr. KELLEY. That is a year and a half?

Mr. GILLEN. No; July 1, 1918, they passed the law.

Mr. KELLEY. One year?

Mr. GILLEN. One year. Mr. Tweedale started to get up the records of his office, and no man has ever performed a large piece of work more efficiently, more courageously, than Mr. Tweedale. In October

of 1919; that is, within less than two months after he took his job—August and September, a little more—within two months and a half he filed two months' accounts of the Shipping Board, under the law. That was for the months of July and August, 1918, and every month thereafter he filed two more months, and on the 1st of November of this year he had submitted from our records vouchers for audit of \$2,700,000,000, of which the comptroller, Warwick, excepted or refused to pass \$1,500,000,000. Since that time he has passed or cleared \$600,000,000, leaving \$900,000,000 of 16 months' accounts, starting with July 1, 1918, yet to be cleared.

Mr. KELLEY. Do you mean 1918 instead of 1919?

Mr. GILLEN. For 16 months, beginning July 1, 1918, accounts have been filed. That leaves \$2,700,000,000; \$1,500,000,000 he refused to pass, and since then they have dug up the supporting data from the districts. In other words, Mr. Tweedale put a force of men out in the districts to get the supporting data that the Treasurer's office should have had, you see.

Mr. KELLEY. That was the reason they were declined?

Mr. GILLEN. They were declined, because the supporting data was not there. This was due to the bad condition of accounting that was prevailing, both in the office of the Comptroller of Operations and Comptroller of Construction, as well as to the bad condition of accounting in the Treasurer's office. In my judgment and in the judgment of Mr. Tweedale as expressed—because before Judge Payne I had control of this work down below, working it up for him—there is no fraud or evidences of fraud in the work done by the treasurer or the treasurer of the Fleet Corporation or of the Shipping Board. It was again the failure to go and pick a big, outstanding man for that job, big enough to handle those transactions. You picked a Franklin or a Raymond, as I said this morning, for one line of work; you picked a Schwab to be your great producer, to drive the production; but when you came down to the men who handled the moneys, they were men who had had no experience in large transactions, no experience of accounting, no experience of organization—the most simple things necessary in a great transaction of that kind.

Mr. KELLEY. Well, Mr. Gillen, if there had been fraud, who could have detected it under such a system as that?

Mr. GILLEN. It would turn up now. They could not at the time; no one could have checked fraud during that period, and the only way you could have checked the fraud would be later on when we begin to count back and find where the checks were sent out on account, and as they were applied, because now they are digging up the vouchers from all around the United States to support the warrants that were issued at that time.

Mr. KELLEY. Well, they have found vouchers missing in large numbers, Mr. Gillen, have they not?

Mr. GILLEN. Vouchers were not always produced at the time that the funds were paid, and pay rolls, for instance, which will never be corrected. Under the practice of the United States Government in other departments, they must have the name of the man and his signature, and I think a sworn statement for the payment of pay rolls of Government funds. That was never done in the Emergency Fleet, and no criticism can come to the management of the Emergency Fleet because of that, because they accepted the usual practice of

shipyard builders; that is, the common shipyard builder practice; but we have compelled them to bring in, however, all of the vouchers produced in the practice and under the practice of those men.

Mr. KELLEY. I think that we have had testimony before this committee that in many yards, or in some yards at least, the vouchers are missing entirely.

Mr. GILLEN. You can easily appreciate—I never could delve out, my mind might comprehend that that could be so—possibly that is part of the \$900,000,000 that they have not the supporting vouchers for. There are still, however, to be passed by Comptroller Warwick of the Treasury Department, or submitted to him, approximately \$900,000,000 more of vouchers under the appropriations, and \$400,000,000 more of the profits that came from operations during war times of private ships by the Government. In other words, about \$1,300,000,000 more vouchers have yet to come through when the transaction of building is completed. What those will show, I do not think there will be as much trouble on those, because under Mr. Tweedale's organization of the Treasurer's office and of the accounting system in the comptroller's office, vouchers were beginning to be prepared after Judge Payne came in there. That was corrected where we could do so, but with that big, vast organization uncontrolled and unorganized the effects of Judge Payne's plans are now beginning to work out. They could not work out in a month or two months or six months or ten months; it took a period in those terrific transactions for the benefit to begin to come out of it to the organization.

May I stop here for a minute and say, many times the younger officials of the corporation, the junior officials of the corporation, have criticized, during the time I was there, men higher up because they would find things, but it must be ever realized by this committee that the men higher up, running a job of that kind, can not take care of the detail outside, and can only correct by trying to put in an assistant to correct or putting in principles to correct.

Mr. KELLEY. You spoke of \$900,000,000 that have not yet passed the Treasury Department.

Mr. GILLEN. They are there, but the Comptroller has not passed them. They use the words in the Treasury Department, "Excepted to."

Mr. KELLEY. Yes; is that a part of the \$1,300,000,000 that you have mentioned?

Mr. GILLEN. No.

Mr. KELLEY. That is in addition to it, is it?

Mr. GILLEN. That is in addition. Let me give you the figures; they run in my mind. We have submitted \$2,700,000,000 and of the \$2,700,000,000 there are \$900,000,000 that have been excepted to by Mr. Warwick. If you will take notice—and this ran through my mind while I was standing here—your total appropriation was \$3,400,000,000; that will be used up, there are \$400,000,000 more that came in to us; that makes \$3,800,000,000. Well, \$2,700,000,000 from \$3,800,000,000, leaves \$1,100,000,000. Now \$900,000,000 have not up to the present time been passed, and you have got \$1,100,000,000—correcting my testimony—still to go through.

Mr. KELLEY. Instead of \$1,300,000,000.

Mr. GILLEN. Judge Payne realized that position when he put the comptroller in there, or when he put Mr. Tweedale in charge of the treasurer's office, and when I came there Mr. Tweedale was complaining bitterly that he had no power, and that the Comptroller of Operations and of Construction, which had been merged as soon as Judge Payne came there,—he named one comptroller, Col. Abadie—that they were running the finances, they were saying what should be done with the finances of the corporation; and he could not get his vouchers up, and he could not get control under the system.

The first week I was there we had a session of Comptrollers Abadie and Tweedale, and at the end of that session it was decided that we would amend the by-laws of the Shipping Board, and the by-laws of the Emergency Fleet Corporation, and we would give to the treasurer of the Fleet Corporation and the Shipping Board the natural and ordinary powers that a treasurer should have, and take away from the comptroller's division and control over finances, and make them the chief bookkeeping institution of the Shipping Board and of the Emergency Fleet Corporation. I think within 10 days after I arrived there the by-laws were amended and then Mr. Tweedale as treasurer took full control of the finances, went over and took charge of these securities—the \$240,000,000 of securities—sent out word everywhere to get a line on the funds that were in the banks of the United States, the impress funds that belonged to the treasurer, and started to get in the \$120,000,000, odd, that was in the hands of operators.

Mr. KELLEY. Were these securities you spoke of all put in one bank?

Mr. GILLEN. Things moved so rapidly there that I can not give you the details. I got there October 1, and afterwards I looked at this, and Mr. Tweedale told me what he found after he started to look into the situation—he could not find out where they were, and the then treasurer—I think his name was Reed—did not know where they were. When they hunted about they finally found the resolutions or something stating that they were over there in Philadelphia.

There may have been a reason for their being over in Philadelphia at this time, because the Fleet Corporation had moved over to Philadelphia, and it was the big disbursing body, the one creating these securities. It is possible that the men there in Philadelphia, creating these securities in behalf of the Government as against loans, put all of them in this Philadelphia bank. Let us see what this sheet says here:

United States Shipping Board Emergency Fleet Corporation. Securities and valuable papers deposited at Girard Trust Co., Philadelphia, Pa.

The point I make is this, that it makes no difference where they were created; they belonged to the treasurer of the Fleet Corporation or the treasurer of the Shipping Board, as they were the securities of one or the other of those two corporations; that there was no control over them, and that somebody in the comptroller's office or some other division of the Fleet was taking care of that which belonged to the treasurer, and we had no accounting. They were not in our books.

That is all I have to say about the treasurer. If you are going to ask me any questions on that before I go to the next subject I would prefer that you ask them now.

Mr. KELLEY. Mr. Gillen, who was R. W. Bolling?

Mr. GILLEN. Mr. Bolling is the present treasurer of the Fleet Corporation. He was an assistant to Mr. Tweedale, and when Mr. Tweedale went over to the comptroller's division, it was thought wise not to break up the organization, but to have the man who was trained in Mr. Tweedale's methods, to be there, and also to have someone who would not interfere with Mr. Tweedale; for we felt that Mr. Tweedale must have in the main control over the accounting right straight through, because of his experience and his ability.

The CHAIRMAN. Mr. Steele, have you any further questions?

Mr. STEELE. Just with reference to the treasurer's account. Those securities were deposited with the Girard Trust Company in Philadelphia. At that time the Emergency Fleet Corporation had its offices in Philadelphia, had it not?

Mr. GILLEN. Yes, sir.

Mr. STEELE. Do you know under what authority they were deposited with the Girard Trust Company?

Mr. GILLEN. I do not.

Mr. STEELE. Was there a resolution of the Emergency Fleet Corporation to deposit them there?

Mr. GILLEN. There may have been.

Mr. STEELE. You have no direct knowledge on that subject?

Mr. GILLEN. I have not. You can get the exact transactions from Mr. Tweedale when you want to investigate as to that.

Mr. STEELE. The Girard Trust Company is the largest trust company in Philadelphia, is it not, and located very close to where the office of the Emergency Fleet Corporation was located?

Mr. GILLEN. Yes, sir.

Mr. STEELE. And your criticism of this is that there should have been a record at Washington as well as in Philadelphia?

Mr. GILLEN. No; that is not my criticism. My criticism is that the treasurer of the Emergency Fleet Corporation neither had a record of it nor did he have control of it, nor did the books of the corporation show what they were in amount nor where they were.

Mr. STEELE. Did you check up these securities there?

Mr. GILLEN. I did not personally, but Mr. Tweedale did.

Mr. STEELE. Was this checking up of these securities supported by any record evidence that you had? Was it supported by any record evidence that this list was a correct list of the securities on hand?

Mr. GILLEN. This list was made by Mr. Tweedale when he went over there.

Mr. STEELE. Yes. Now, when Mr. Tweedale went over the list of securities, was it a complete list or were there any securities missing?

Mr. GILLEN. You are asking me a question about something I do not know a thing about. But I can answer it this way. If I had gone up, as I did to the banks in New York, to find out what cash there was in the bank, and if I found out there was so much cash in the banks up there I would not know whether it was all the cash that ought to be there or not. We do know this, that later on other securities were found that belonged to the Shipping Board and the Emergency Fleet Corporation.

Mr. STEELE. Where were they found?

Mr. GILLEN. I could not tell you as to that. That is a very small detail, however, compared with the work we are doing. That may not seem to be a very fair answer, but when you are playing with the things that some of us were—we never got a chance to get into that.

Mr. STEELE. What was the nature of the securities found outside of the Girard Trust Co.?

Mr. GILLEN. I imagine they would be of the same nature.

Mr. STEELE. I am inquiring particularly as to the amount of them?

Mr. GILLEN. You see, I am now testifying as to what I think and what I have heard in that particular matter.

Mr. STEELE. You have no personal knowledge?

Mr. GILLEN. I have no personal knowledge. If you want to go into this, get Mr. Tweedale and he will give you the facts.

Mr. KELLEY. With this sort of arrangement it was always possible that the Fleet Corporation would be up against exactly the same proposition as to these securities that you were up against as to the money? It may have been all there or it may not have been?.

Mr. GILLEN. The same thing. And when you are playing with millions you have got to have some control, and when you are playing with billions you need a bigger control.

Mr. KELLEY. Is it not an unheard-of thing for one agency of any great organization to have full control of money or securities without some other agency of the same organization checking them over and keeping track of them? If you wanted to encourage crookedness what better system could you inaugurate than to have just one agency of a great organization fully responsible for the money without any other agency, like the treasurer, checking it up?

Mr. GILLEN. The fact is that with proper control on the part of the auditor or bookkeeping department, and with the treasurer having the securities, you stop not only all kinds of fraud but you also see that the contractual relations that the Government has entered into are carried out in accordance with the securities that are issued. And you can not permit the securities of the corporation to be under the control or in the possession of anyone else except the treasurer of the corporation. As to whether fraud could occur, of course, that is just a hypothesis. We had some crooked men there, of course.

Mr. KELLEY. These mortgages were given for the protection of the Government of course?

Mr. GILLEN. Yes, sir.

Mr. KELLEY. And the fact is that those agencies of the Government which would be called upon to protect the Government did not know they had the mortgages?

Mr. GILLEN. Not only that, but we will assume, as was the case in these other instances, that mortgage notes became due, or that there were indorsements on these mortgage notes; it would fail because of notice, unless the treasurer had it charted and so that he knew the transactions. You can see what would intervene. I do not know exactly but it was reported many times where checks would be cashed after a long period, or where notes were overdue where the parties were able to take care of them and where they were not collected for a long period, because the obligations were not charted, where the right man in control could have collected these moneys.

Mr. STEELE. These securities were deposited with the Girard Trust Company simply for the purpose of safekeeping, were they not?

Mr. GILLEN. I would imagine that is so, and the bank was a good bank.

Mr. STEELE. No better in Philadelphia.

Mr. GILLEN. No better in Philadelphia nor in America.

Mr. STEELE. And they were placed in a separate box in the deposit vault, under the control of the Fleet Corporation, were they not?

Mr. GILLEN. I suppose the usual practice obtained; I have no knowledge of that. Anything that the trust company got from us they took care of, and without a question we got every bit of it back.

Mr. STEELE. That covers what I wanted to ask.

Mr. KELLEY. I was not quite sure this morning whether I understood you correctly as to the practice of the bureau of construction in the matter of making an inventory of material on hand in the case of these requisitioned ships.

Mr. GILLEN. They did not make one at the time the requisition order was given, and it was some months afterwards, when Mr. Brill, a very high grade and efficient engineer, went over these different shipyards and made what we called the Brill report on those shipyards——

Mr. KELLEY. Well, after months had elapsed you had to take the word——

Mr. GILLEN. Physical conditions had materially changed.

Mr. KELLEY. You had to take the word of the contractor?

Mr. GILLEN. Yes, sir; in a way. We had moved things out, or we had sold scrap, or any number of things. If we had been negligent there was no way to check it.

Mr. KELLEY. In addition to that, you had in many cases furnished further material for the finishing of those ships?

Mr. GILLEN. Oh, yes; those were added to it. That is why you could not tell. And when we finally came to make a settlement, since there was no inventories, he would turn over what was left on hand, and there was no way of checking what was ours and what was his. However, in the main, I do not think there has been fraud on the part of the shipbuilders of America from what I have seen of them. The only thing they did was that they got very good profits in certain cases, but I do not think there has been outstanding fraud on the part of the shipbuilders of America, in the performance of their contracts. That is my judgment after settling many, many cases here and there, where we have men in failing financial condition and men who had never had any experience in building and who became involved. They made turns that possibly were wrong. But I want to say for the American shipbuilders, as I saw their work, that I do not believe they practiced any intentional fraud in their contracts.

Mr. KELLEY. Well, as to any settlement that was made before the time that you had these inventories prepared the best they could be prepared at that time, on what possible basis could such a settlement be negotiated even?

Mr. GILLEN. The failure to make the inventories at the time they should have been made—that failure having once intervened, it is here to-day. Judge Payne made settlements, and all of them with that condition intervening. It rained yesterday, and you can not change that condition to-day.

Mr. KELLEY. I know, but you went ahead and made the best arrangement you could. You found that situation as best you could?

Mr. GILLEN. Yes, sir.

Mr. KELLEY. And then you use that as a basis for future settlements?

Mr. GILLEN. Yes, sir.

Mr. KELLEY. But what I am getting at is, what was used as the basis for settlements made prior to the time you went in there?

Mr. GILLEN. I think that in the main the cancellation and construction claims board at Philadelphia did the best they could. In other words, they used methods in connection with construction claims much the same as were used in Judge Payne's term, namely, to send out men into the yard and check the books in the yard, plus what we had on our own books. And that is what we have had to do in the settlement of claims since that time.

Mr. KELLEY. Now, in the case of these Norwegian ships that you spoke of this morning, on what possible basis could those claims have been settled?

Mr. GILLEN. That, as I stated before, was settled without sending any men—the construction and claims board had nothing to do with that.

Mr. KELLEY. That is what I am getting at.

Mr. GILLEN. That was done down at Washington by the Shipping Board and the Emergency Fleet Corporation.

Mr. KELLEY. And without an inventory and without this supplementary inventory which was later taken?

Mr. GILLEN. And without an audit of the yards where these contracts were had.

Mr. KELLEY. Now, my question is, on what probable basis could that settlement have been reached except on a mere guess?

Mr. GILLEN. I used this morning the term "horse trading." It is horse trading without seeing the other fellow's horse, in that case.

Mr. KELLEY. You mean by that that the claimant simply puts his claim as high as he sees fit, and then takes less?

Mr. GILLEN. I mean to say, in reference to that Norwegian claim, that the Norwegians put it at \$42,000,000, and they traded with Robert Dean, representing the Shipping Board, as one of the attorneys, and Mr. Stevens, a commissioner—both men absolutely 100 per cent honest and conscientious, but neither one of them knowing the principles controlling the settlement of requisition cases, and neither one of them understanding accounting, and neither one of them having what I call the resistance that is necessary for men to handle big matters and settle them. In other words, the Norwegians and their attorneys put it absolutely over on these two men to the tune of \$22,000,000. That is what I mean.

And they were up before the board also; the board sat in session a number of times on this matter. There is no personal criticism, mark you, in anything I say here, or a suggestion of motive of fraud or negligence. I mean negligence so far as hours of work are concerned. All of the men I have mentioned have been hard-working men, mighty hard-working men.

Mr. KELLEY. Nearly all of these foreign contracts that were placed in our yards before the war were at a fair price for tonnage?

Mr. GILLEN. It all depends on what you call a fair price. If you go back to 1914, cargo boats of \$65 would have been a good price, and tankers at \$70 per dead-weight ton would have been a good price.

In 1915 and 1916, when these contracts were placed, they were placed at a considerable increase over that. As compared with \$300 a dead-weight ton, which was the prevailing price when our country went to war, they were placed at a fair price, because this was the only open market in the world to build ships in before we went to war.

Mr. KELLEY. These Norwegian contracts then probably were placed along about the time we went to war, or a little before?

Mr. GILLEN. A little before. You can tell from the percentage. Here is the second set of claims; it is just like the first set as to time (consulting document previously submitted). Well, no; this is worse. Here in the second group, where these fellows were asking for \$14,000,000 plus on contract No. 1, they only had \$67,000 worth of material in the yards. In No. 2 they had none. No. 3, none, No. 4, they had \$88,560. No. 5, none. On No. 6, an 8,800-ton boat, they had \$868,000. Nos. 7, 8, 9, 10, 11, 12, 13, 14, and 15, none.

They had made progress payments, however, to the owners on account of the contract of \$2,381,000. We said, "All right, we will pay you back the money you have paid." But they did not have—for instance, if we had settled on their demands on Contract No. 15, there was no material in the yards. They had paid \$21,875, and they were asking us for \$567,000, for nothing but water or air, whatever you want to call it, without a dollar's worth of material in the yard. And yet Commissioner Stevens wrote a letter and said he would settle on the same fair terms as he had settled the other claims. We had considerable friction in reference to that.

Now if you will take the other group you can go down and get the amount of material that was there just the same as in this group.

Mr. KELLEY. That answers what I had in mind. Now, the war ended on November 11, 1918, and you went in there the 1st of October, 1919, almost a year later. I ask you, Mr. Gillen, whether or not in your judgment, with business men of just ordinary capacity and ordinary experience, to say nothing of the type of men who ought to handle a great enterprise of this kind—whether or not time enough had not elapsed to have perfected an organization by the time you got in there, and to have perfected all this situation which you have detailed to the committee here to-day?

Mr. GILLEN. It is hardly a fair question, but I will endeavor to answer it. Unless a man went in there of Judge Payne's type, a man who could rise above the demands of people who came to see him during the day, a man who would say, "This is an awful mess; I have got to get somebody in here to find out what all this is about;" unless he could rise above the detail of any single thing, even if it was \$25,000,000, unless you had a man that could aeroplane the lines so that he could get the big reflections, he would be so tied up with the things that would be pressing him that he could not get out to the yards. I think that answers your question.

Mr. KELLEY. Well, it does not just answer it exactly.

Mr. GILLEN. I do not think I can answer it the way you want it.

Mr. KELLEY. Suppose there was a private project of this same magnitude and men who were competent to handle it, such as private capital would require, how long would it reasonably have taken to have perfected an organization which could have obviated the situation which you have detailed to the committee here to-day?

Mr. GILLEN. If you had the right kind of man on that job, and then if you would put alongside of him six more men of the type, say, of Gary—six of them, so you could divide it up—you might in five or six months make a long move ahead. But you would need six of them.

Mr. KELLEY. Suppose the right kind of man had been appointed in the beginning. How long would it have taken to have perfected an organization such as would have obviated this situation which you have detailed here to-day?

Mr. GILLEN. If you had had that type of man in the beginning, you would not have had the trouble on your wood ship program versus steel; you would not have had all of the troubles that have ensued because of failure of accounting and failure to make contracts that could have been audited out simply. If you have the right type of man—I do not say that you need to give an American business man of the high type a university education in handling three billions of dollars, and let him get it all mixed up in order the next time to get it right.

Mr. KELLEY. Has not the situation you have detailed to the committee proven conclusively that the right type of man did not precede Judge Payne on this board?

Mr. GILLEN. I do not think that is a fair question. You are asking me to pass upon the President's appointments, and he has seen fit to honor me with an appointment, and I do not think it is fair to ask me to pass upon it.

Mr. KELLEY. You did not accept the appointment?

Mr. GILLEN. That does not make any difference; I am an honorable gentleman, and I am a Republican, too. [Laughter.] I do not think that is a fair question.

Mr. KELLEY. I will ask you the question this way—

Mr. GILLEN. No; I am going to answer it. I have stated to the next President of the United States, Mr. Harding, that the administration of our Government, not only the Shipping Board but the other large administrative jobs of the Government, should have men in them of known administrative ability, because they are the biggest jobs in the United States. I said that I believed it was the duty of the President of the United States to say to the Senate committees, who pass on these nominations, "You have just as much responsibility in these appointments as I have, and you should no longer accept my nominees. It is your duty to say whether or not I have selected men of the qualifications to hold those jobs. You have just as much that duty, members of the different Senate committees, to do that as you have to pass upon a treaty." And when the American people put that responsibility upon the committees of the Senate of the United States we will begin to get good government here, and until it is done we will have political appointments whether under a Democratic administration or a Republican administration.

Another thing that must be done in this country—make the Senate take its full responsibility and not have the President of the United States feel hurt when it acts. If the President selects for a great administrative duty like the Shipping Board, which requires the highest type of business administration, some man that has been getting \$3,000 to \$4,000 a year, running a small line of business over in my State of Wisconsin, then the Senate Committee on Commerce

should say no and the President should permit them to say no. The trouble with our country is too many politicians in the big administrative jobs, and it is not the Democratic administration any more than the Republican administration. Some of them get more, some less.

Mr. KELLEY. Let me put the question hypothetically. Suppose it developed that the chief of operations of this fleet of 1,200 ships belonging to the United States Government so conducted the affairs of his office that he had not made any settlement with these corporations for two years and did not know whether the Government had made any money upon its ships or not; that he did not even know whether the earnings of his ships were deposited or how much there was of them, so that there was \$175,000,000 lying around at various places which the Government did not know about, would you say that a man of that kind was competent to be the head of the bureau of operations?

Mr. GILLEN. If he had a board of directors who had the primary responsibility and they hired him and if he had a board of directors who gave him the proper accounting, then I would say that he should not hold that job. But I will say something further in reference to that. As the men who were on the board of directors in this particular instance did not know and he ought to have known, because he was a high man in that line of business, he had a greater duty to perform, and that was to go to that board of directors and say: "It is your duty to collect these moneys. I have to have statements upon which I can operate. Here is the way I do it in my own business and you must do that, and then we can have an accounting." That was his duty and if he did not perform that duty then that is a criticism that history must pass on him. I do not care to do so personally. Because it is conceded that he was a big outstanding shipping man, the president of a great line, and had grown up in the business, it is also conceded that few men on the Shipping Board and the Emergency Fleet Corporation had any knowledge of commercial accounting. My department, if I had charge of it, would not fail because of other departments or else I would get out.

Mr. KELLEY. Then if the members of the board had been thoroughly competent to perform the service for which they were appointed, they would have discharged the chief of the division of operations when this state of affairs came to their attention. Is that it?

Mr. GILLEN. No. He could stay on his job and say, "Gentlemen, furnish me with these statements——"

Mr. KELLEY. Suppose you had accepted a position on this board yourself, and this situation developed to the chief of operations and you discovered this condition. How long would it be before you would demand his resignation?

Mr. GILLEN. That is too hypothetical, Mr. Kelley. You have my reflections on that; why ask me to pass on something else?

Mr. KELLEY. That is all, Mr. Chairman.

Mr. STEELE. I have nothing further.

The CHAIRMAN. Mr. Gillen, I think you appreciate that this committee is attempting to secure the facts.

Mr. GILLEN. Yes, sir.

The CHAIRMAN. And you have given us the facts, showing us the conditions that existed in the accounting department and the treasury

department, and with respect to construction and operations and repairs shortly after Judge Payne took office, have you not?

Mr. GILLEN. I have not treated the construction and repairs, except so far as they were reflected by accounting, because I had nothing to do with construction or repairs.

The CHAIRMAN. I mean with reference to accounting.

Mr. GILLEN. Yes.

The CHAIRMAN. Now, with this condition prevailing and it having prevailed since the organization of the Emergency Fleet Corporation, can you state to the committee how the Shipping Board or the Fleet Corporation could possibly pass upon or inaugurate great policies affecting the shipping of the country and its construction program and the operation of these ships so that the Government would be functioning in a manner beneficial to its merchant marine?

Mr. GILLEN. They could not do so.

The CHAIRMAN. And even though you have stated that you found no evidence of fraud or corruption on the part of any of the Government officials, or on the part of the American shipbuilders, when you came to analyze the situation October 1, 1919, and subsequently, would not the condition which you found at that time have been such as to make it extremely difficult to ascertain if there had been fraud months earlier?

Mr. GILLEN. It would be almost impossible to find if fraud had been committed outside of the corporation, except only as it would be reflected in vouchers that passed—fraud in contracts. For instance, it gave the greatest opportunity in the world for contractors, purchasers of ships, and operators asking for allocations, to come down and make a special plea and get special consideration, because accounting and principles have not been established. It left the door wide open to it.

The CHAIRMAN. I think you stated that the American shipbuilders during this construction program, in many instances, received large profits? Is that so?

Mr. GILLEN. I think they did.

The CHAIRMAN. With the system of accounting, or lack of system of accounting, which had prevailed since 1917 to October 1, 1919, was the Shipping Board or its officers in a position to ascertain how much the profits of these shipbuilders were or whether they were inordinately large or not, after the contracts had been awarded and the materials furnished?

Mr. GILLEN. They were not, only so far as it was reflected on the shipbuilders' records. But may I say this, so that your question will not tie me on what I have to say on the profits to shipbuilders? When you say "inordinate profits," the inordinate profits that were made here and there by the shipbuilders were due to the method of accounting, and accounting would not have aided that to any great extent. It was the failure in the early history of the Board to understand the underlying principles and to make the contractors accept those underlying principles which would have protected the Government in reference to cost.

That is cost-plus, and if you want that to come in here now, I will discuss it.

The CHAIRMAN. Well, I will ask you about that later.

Now, I wish to ask you with reference to ships operating on the high seas, which were requisitioned, as to whether they were receiving unusually high freight rates—well, commandeering is the term used—and what the fixed rental was, and how the value had been fixed and what the situation with reference to those ships commandeered upon the high seas was, passenger and cargo ships, wood and steel, and tankers.

Mr. GILLEN. The World War started on Saturday, August 1, 1914. Prior to that time the shipping tonnage of the world was low in value and low in profit. It had gone through a period of what you might call the hard financial conditions. They were not making much money, generally, across the world. With the starting of the war, and especially after the submarine warfare started, after submarines started to operate, the tonnage became lessened and the demand became great for the cause of the Allies. And as the tonnage lessened, the tonnage itself increased in value, and freight rates went up because of the risks involved and the short supply of ships. Then, too, the only real big building markets in the world were Germany, and she was shut off; Great Britain, tied up with her own war necessities, the Navy, had to take care of decreased tonnage; the United States and Japan. Japan had no steel. So that tonnage went up in value from \$65 per dead weight ton for cargo boats and \$71 or \$72 per ton for tankers, by almost leaps and bounds.

The CHAIRMAN. The values went up very fast.

Mr. GILLEN. Yes, sir. I think I have some figures here that will cover that and can give them to you exactly. (After looking over papers) I find I was wrong on the figures I gave you. Up to March, 1915, the tanker prices were \$75 per dead weight ton, brand new, and cargo boats \$65 per dead weight ton. From March 1915, to March, 1916, prices had gone up for tankers to \$125 per dead weight ton and cargo boats to \$110 per dead weight ton. From March, 1916, to April, 1917, new tonnage tankers went to \$170 per dead weight ton in this country, and cargo boats to \$156 per dead weight ton. These figures are taken from actual contracts placed in the United States.

Now, when we went to war, the great percentage of the fleet under the American flag was old time tonnage that had been built, I dare say 80 per cent of it, at less than \$100 per dead weight ton. And by the time we got into the war, freight rates had soared, they had gone up to unheard of prices. When we entered the war, or just about when we entered the war, some men got freights at \$200 per ton, and particular voyages, to dangerous localities, involved high insurance rates, and other conditions ensued; but the rates had gone very high.

The boats that were being operated and owned by American ship owners were making terrific profits. So when we went to war—allow me to go back just a minute: That was equally true of munition makers in America. They were making terrific profits out of Russian, French, Italian, and British contracts. The meat industry, in the matter of sales for foreign account, was making very large profits before we went into the war. I have in mind, for the moment, one contract that I took for the French Government, of \$212,000, in competition with five other companies, direct competition in bids, where we made \$100,000 on that one contract, and that was way back in 1915. That was an unusual one, but on the foreign contracts

placed in this country, under competitive bidding, mind you, terrific profits were made.

When our country went to war, it was determined we would stop profiteering on the Allies and stop profiteering on our own country, so far as the Government could stop it. We went out and fixed 10 per cent as the profit which could be made, in the main, on contracts.

Coming now to your question of profits, shipbuilders were getting in the main 10 per cent profit on what they did. That in itself is not an inordinate profit, 10 per cent, but it all depends on the way it is figured, whether 10 per cent on the natural cost or a loaded cost. If it is a loaded cost, it is 10 per cent plus, but 10 per cent is not an inordinate profit on sales. Our Government put the packers on a 9 per cent profit on their sales, if you will recall. This same Joe Cotton, in Mr. Hoover's organization, made that arrangement with the packers. The railroads were tied up to an average of the three prewar years. The Army, in placing all its contracts, placed them as nearly as it could on the basis of 10 per cent on the sale.

Now, when the war broke out, with these terrific profits being made by the shipping interests, we requisitioned all the ships on the seas, and we said: "All the freights are ours." We also said: "All the expenses are ours. We will pay every expense. In addition to that, we will carry the insurance on your property, and contract, too, to pay you back if your boat goes down at sea."

It became necessary to fix a rental value for all the steel tonnage that was at sea. I have the exact language, so that I can get it into the record. "In establishing that rental for the boats taken over under the requisition order of October 12, 1917, there were taken over all ships of 2,500 tons and upward. The board fixed a rate of \$4.15 per dead weight ton per month per cargo boat, and \$5.75 per ton gross per month for passenger steamers of 11 knots speed, with an additional allowance of 50 cents per ton for each knot in excess of 11 and up to 16 knots.

"It assumed the war risk, and in some instances the marine risk as well. It treated all the tonnage it took over as of the value of \$175 per ton, 60 per cent of the tonnage taken did not reach originally a cost to exceed \$75 per ton. By fixing the base value of tonnage at \$175 per ton, the Shipping Board did not recognize the theory of profiteering established by the Government in all other matters, in all other industries and departments. They arrived at the \$4.15 per ton by the following method: They allowed (a) 10 per cent for annual depreciation, (b) 6 per cent on investment figured at \$175 per dead weight ton, and (c) then added 9 per cent profit. With 10 per cent for annual depreciation, some of the ships were 12 or 15 years of age, built at less than \$75 per dead weight ton, and yet they allowed depreciation at the rate of 10 per cent on \$175, as though they were new boats. After the 6 per cent interest on the investment, figured at \$175 per dead weight ton, no interest was allowed by the Government on any contract in other department."

"An analysis of the books of account of the several ship owning companies, will disclose that over a period of years, and estimated on a basis of true wear and tear as depreciation, these owners did not charge off on their books to exceed 5 per cent. But the allow-

ance of 10 per cent was an allowance of at least 5 per cent profit. And that is not 5 per cent on \$75 original cost per dead-weight ton and depreciation as well, but 5 per cent on \$175 per dead-weight ton."

In none of the other departments of the Government in applying the doctrine of just compensation was an allowance of 6 per cent interest on capital invested allowed. But an additional factor of 6 per cent profit was allowed, not on the original cost of the ship and depreciation but on \$175 per dead-weight ton. These two items, added to the third factor of 9 per cent profit, made 20 per cent direct, because the depreciation should have been 5 per cent, and what they actually did was to give them 25 per cent profit per year on \$175 dead-weight ton.

The CHAIRMAN. They gave them 25 per cent?

Mr. GILLEN. Yes, sir; as rental. Five per cent should have been ample for depreciation on boats that have had wear and tear, so it left 20 per cent on the boats marked up from \$75 per dead-weight ton, we will say, and we are not taking out any depreciation on that, marked up to \$175 per dead-weight ton. If you take 20 per cent on \$175 per dead-weight ton, it is one item. All other industries in America were put on a 10 per cent basis. And if you put the interest on \$175 per dead-weight ton you are beginning to get some real profit.

It is also a fact that nearly all of the ships afloat at the time of the requisitioning order, in the hands of original owners, stood on the books of the owning companies at about \$70 per ton or less. They had been built from 1 to 30 years ago and carried a large accumulated depreciation charge, which would average the tonnage below \$60 per ton. By fixing the face value at \$175 a ton a factor of profit large and important was allowed, which made the total annual profit—net profit, I mean—57 per cent on the investment. A fair example of how the profits worked out is as follows: Assume a ship of 10,000 dead-weight capacity was built 10 years ago at \$70 per dead-weight ton (the cost price for dead-weight tonnage in 1909 was much less than \$70 per ton). Its costs would have been \$700,000 in 1909. Without charging against that value depreciation for 10 years, and taking its cost as a basis on October 12, 1917, 25 per cent on \$700,000, it is \$135,000, which would be the annual charge for use on a \$4.15 per ton basis; 25 per cent of 10,000 tons times \$175, \$435,000, which was the amount actually allowed. On the basis of actual valuation of \$700,000, the sum of \$437,500 produced a profit to the owner of 62½ per cent, less 5 per cent for depreciation, or 57½ per cent annual profit. By this operation the Shipping Board allowed a larger profit to the owners of the ships than it allows to any other class of its citizens on property requisitioned in the many other war producing lines. That allowance was more than generous from the standpoint of just compensation.

The rate was fixed and very nearly all of the owners signed up contracts and have accepted payments thereon. To allow the boat owners who refused to sign up to get a larger and stronger rate would be manifestly unjust and unlawful. From the record now before the board it almost seems (a) that with those with whom no contract has been made, that the offer of \$4.15 per ton per cargo ships and \$5.75 per ton for passenger boats should be withdrawn and notice sent to those owners of the fact; (b) that these owners

should be compelled to produce the books and records of their companies on each ship, showing actual cost and whether built on original contract or purchased, together with the depreciation charges on each ship as kept on the company's records; (c) a list of the ships requisitioned and not under contract should be compiled and the data of construction, etc., gathered from the Lloyd register, together with the insurance policies of insurance record, books of the corporation running back for the years of ownership. These facts, when gathered on each ship, will permit of an early award and give the claimant an early opportunity to appeal to the court of claims if not satisfied.

I am reading from a letter I wrote Judge Payne November 1, 1919, and I said: "Attached hereto are a few building costs of ships, compiled by our construction and repair department; also legal conclusions of Edward H. Abbot on doctrine of just compensation."

The CHAIRMAN. What is that you have been reading from?

Mr. GILLEN. A letter I wrote Judge Payne November 1, 1919.

I said a little while ago we found a lot of claims. I introduced this morning the claims from boats requisitioned on the ways. When I got there there were a great many claims from boat owners whose boats had been requisitioned during the war, and they did not desire to take \$4.15 but wanted to get all the big war freights which had been made during the war. Those were the tanker cases, pretty nearly all the tanker companies were in that position, and pretty nearly all the passenger boats took that position, and a number of the special steel cargo men who were hauling ore and hauling certain types of machinery, their boats being constructed for that purpose, they took that position. We had chaos. I was trying to get clearance so that we could get freights back from those men. I was trying to get accounts stated with those men.

Outside of \$175,000,000 there were large disputed items. So I said to Judge Payne I thought the time had come when we should lay down the doctrine of \$4.15 and serve notice on every one of the ship owners that that was the principle, and that we intended to stand by it, and if they did not come through we would force them into the Court of Claims on the situation.

On November 6, 1919, which I think was on Sunday, I wrote a memorandum here, and on the next day Judge Payne put it into effect. None of these claims had been settled. We sent a copy of this to every one of the owning companies who were taking that position, and served notice on them that we had adopted the policy of \$4.15 for cargo boats and \$5.75 per ton gross per month for passenger steamers; that we would permit them a certain number of days to come to a full realization of their situation; and that if they did not come to such realization, we would hold sessions in the Requisition Claims Board, and we would make findings against them, because it was right, because we had the legal right to settle these matters, whether they wanted to come in or not; and if they did not come in we would force them into the Court of Claims. We sent notice, as I said before, to the president of the companies——

The CHAIRMAN. (Interposing.) You mean findings in favor of them and not against them?

Mr. GILLEN. I mean to make findings in favor of the facts as they were.

The CHAIRMAN. You said findings against them.

Mr. GILLEN. Against their contention.

The CHAIRMAN. But it would be in favor of paying them on that basis?

Mr. GILLEN. Yes; on the basis \$4.15 per dead-weight ton per month for cargo boats and \$5.75 per ton gross per month for passenger steamers of 11 knots speed, with an additional allowance of 50 cents per ton for each knot on excess of 11 and up to 16 knots. We sent out notices to all the companies. The result of that document was that these cases have all been settled.

The CHAIRMAN. And paid?

Mr. GILLEN. They have all settled on this basis, with the exception of one, and I will furnish the name of that company for the record. That company has gone to the Court of Claims. I understand all of the passenger men—that is what the accounting department notified me—have settled. In other words, they have accepted it.

By establishing that principle, and maintaining it, we have been able to settle these matters. It was Judge Payne's policy to establish a principle so that every one of our accountants, and all the men who had anything to do with the matter, would understand the principle, and that there was no way that they could trade on it. And that was our principle and we have followed it at all times. When a big thing comes up, as has been suggested here, Judge Payne trades fast, but most intelligently, I want to say, and has accomplished things for the Government. In this particular matter, it threw out all open American claims, and they came in and settled, the Texas Co. and the Vacuum Oil Co., as did one after another.

The CHAIRMAN. Just permit me to ask you a question. You said criticism was offered that Judge Payne was a man of quick decision or something. I do not think that was a criticism.

Mr. GILLEN. No, not of your committee, I understood.

Mr. STEELE. I asked that question, but not in the nature of criticism.

The CHAIRMAN. It was not intended as a critical question by Mr. Steele, at all, but was asked because something was said by some other witness, and Mr. Steele said that Judge Payne was a man of quick decision. I want to ask you, if when he made a decision, he had information before him and he made it along the line of established policy?

Mr. GILLEN. I think he always had the information that we could get, which was the final information we could get. In other words there was case after case where you could not get the information. You could not line up the damages stated by either side, in some cases, due to the contracts and the conditions that prevailed.

The CHAIRMAN. Now about other big questions; was the decision in line with established policy or rule?

Mr. GILLEN. It was.

Mr. CHAIRMAN. That is all I wish to ask now. You may go ahead with your statement.

Mr. STEELE. If you will permit me right there, let me say: That remark of mine perhaps was inadvertent, but it was not intended in any way as a criticism of Judge Payne. It was based upon what little personal experience I have had with Judge Payne. I have noticed that his decisions were usually quickly rendered, but I want

to say that they were almost unerring, in my judgment, in their accuracy.

Mr. GILLEN. Now, gentlemen of the committee, at the outbreak of the war, in reference to this doctrine of \$4.15, the British Government took action, and it was an old shipping nation, and here is what they did in reference to the ships that they took over:

"At the outbreak of the European War, the Government requisitioned all boats under the British flag and established what was known as blue book rates for tramp steamers on a bare boat basis. The rates paid to the British owner under requisition were as follows: (The reductions herein have been made on a basis of exchange of \$4.86 as against \$4.16 to-day). On boats from 2,001 to 3,000 tons dead-weight they allowed \$2.01 per dead-weight ton per month. On boats from 3,001 to 4,000 tons they allowed \$1.92½. On boats from 4,001 to 5,000 tons they allowed \$1.64½. On boats from 5,001 to 7,000 tons they allowed \$1.46½. On boats from 7,001 to 9,000 tons they allowed \$1.46½. On boats over 9,000 tons they allowed \$1.27½. This is against our \$4.15."

This document is dated November 1, 1919.

The CHAIRMAN. Did you say they allowed \$1.27½ per ton on boats over 9,000 tons?

Mr. GILLEN. Yes, sir. At the time the tramp steamers were requisitioned they also requisitioned the passenger vessels on gross form of charter. In other words, the owners paid for the crew, their food, engine and deck stores, and the rates were as follows: On 15 knots and under 18, with the owners of the boats paying for the crew, their food, engine, and deck stores, they allowed \$4.13½ per gross ton per month. On boats of 14 knots and under 15 they allowed \$3.69½. On boats of 13 knots and under 14 they allowed \$3.65 per month. On boats of 12 knots and under 13 they allowed \$3.40½.

The gross register tonnage of passenger steamers in many cases is not as much as the total dead-weight tons, but in many cases it is slightly more, the differences depending upon the passenger carrying capacity of the steamer. But the British Government made no distinction of this point. They gave all owners higher on the above basis, irrespective of what capacity she had. The requisition rate paid to American shipowners by the United States Government is based on the dead-weight tonnage and Government form of time charter while the owners pay for the crew, their food, engine and deck stores.

From the analysis of the English and American rates, as established, it is evident that we paid from 230 per cent to 275 per cent more per dead-weight ton to the owners under the doctrine of \$4.15 and under the doctrine of passenger rates than the British Government paid for the same use.

The CHAIRMAN. Who established the doctrine of \$4.15?

Mr. GILLEN. It was established by the Shipping Board.

The CHAIRMAN. When?

Mr. GILLEN. Shortly after we went to war, after we took over the ships. We took over the ship on—let me see—

The CHAIRMAN. August 3d?

Mr. GILLEN. No.

The CHAIRMAN. Oh, those were the ships at sea.

Mr. GILLEN. The requisition order was October 12th, 1917.

The CHAIRMAN. For what years were those comparisons made?

Mr. GILLEN. The British went to war in 1914. We got these out of their blue book, which meant that they prevailed practically throughout the war.

The CHAIRMAN. The American figures were for they ears after we entered the war.

Mr. GILLEN. Yes.

The CHAIRMAN. Did the British figures continue the same after we entered the war?

Mr. GILLEN. I so understand.

The CHAIRMAN. So that while we were paying \$4.15 after our entrance into the war, the British were paying a much lower rate, in some cases 230 per cent lower.

Mr. GILLEN. Yes, sir.

The CHAIRMAN. During the same period?

Mr. GILLEN. Yes, sir.

The CHAIRMAN. Was there any element of expected risk, notwithstanding the Government insured the boats and agreed to pay the owners in case of loss—was there any expected risk of operating which might have entered into this computation and which resulted in this figure, if you know?

Mr. GILLEN. The question answers itself—they were insured.

The CHAIRMAN. Well, outside of the fact that they were insured, and considering the fact that they may have been difficult to procure crews, and—

Mr. GILLEN (interposing). The Government did that and paid for them and was running the property. In every case the British shipowner had to supply crews and food. The American shipowner, if he did not have crews on the boats, got his \$4.15. That was running if the boat was at the dock.

The CHAIRMAN. Who were the members of the Shipping Board or the committee that fixed this rate at the time it was fixed, if you know?

Mr. GILLEN. It was fixed by the Shipping Board then in existence, but I could not give you their names, as of that time. You can get the resolution of the Shipping Board and the vote taken on it.

The CHAIRMAN. At the time these claims were pending, for instance, on the part of the tanker companies, were there any accounts or records in the operating division or in the accounting department upon which to base a settlement?

Mr. GILLEN. There were not.

The CHAIRMAN. Did that information have to be secured by sending men out and auditing the books of the companies?

Mr. GILLEN. It did.

The CHAIRMAN. In the same manner that these other matters were procured?

Mr. GILLEN. In other words, that is just what transpired. This was an additional element of confusion that we removed.

The CHAIRMAN. Do you remember the amount of the outstanding claims on tankers on or about October 1?

Mr. GILLEN. I could not give you that.

The CHAIRMAN. Do you remember the outstanding amount of claims for all those commandeered ships at sea about that time?

Mr. GILLEN. I could not tell you, for the reason that they did not file their claims. We knew of some big outstanding claims; and we knew that nearly all of the tanker companies were not settling, or had a contract with the Government, whereby, by accepting 75 per cent and leaving 25 per cent of the amount with the Government,

they could go to the Court of Claims. We also knew what the passenger men were doing; they were not settling up, but what they expected finally to get out of the Government, or what claim they would put in, we could not tell. But we know we wiped out a lot of claims, wiped the slate clear, by the doctrine.

The CHAIRMAN. How many of those claims were settled on October 1, 1919?

Mr. GILLEN. None. No accounting had been had with the operators.

The CHAIRMAN. Had the companies whose ships had been commandeered agreed in writing to settle upon that basis, on October 1, 1919?

Mr. GILLEN. Many of the companies refused to sign any agreement with the Government. The Government reached out and took those ships, and they allowed the Government to take them. Of those who signed up, we had their contracts. Then there were a number who made contracts reserving the right, which is provided under statute, that they could take 75 per cent of what we said was right, and we hold 25 per cent, and they go to the Court of Claims. We have those contracts, and then there was a class where no contracts were made because they would not make any contracts.

The CHAIRMAN. What was there to prevent the board, on or about October 1, 1919, just brushing aside all these claims and saying, "We are going to wipe out the doctrine of \$4.15, we are going to settle with you on another basis."

Mr. GILLEN. There were all these contracts that were resting there; and Judge Payne took the position, early, that a legal contract entered into by officers of the United States Government had the good faith and honor of the Government behind it, and as long as it was made in due course it was like a Liberty bond or anything else, that he would not avoid a legal contract made in due course by the officers of the corporation.

The CHAIRMAN. So that in cases where there were contracts, the board and Judge Payne and yourself took the position that there must be settlements under the contracts?

Mr. GILLEN. Yes, sir.

The CHAIRMAN. Would that have necessitated settling with these other claimants who refused to enter into contracts upon the same basis?

Mr. GILLEN. No, but we were holding out to them that we would give them the same terms we gave all the others, and until they had an opportunity it was the feeling of the board that they should have that right in fair dealings.

The CHAIRMAN. That you would not discriminate?

Mr. GILLEN. We would not discriminate.

The CHAIRMAN. I understood you to say that in many instances, Mr. Gillen, this showed that some of these companies received 54 or 57 per cent profit?

Mr. GILLEN. On their base investment.

The CHAIRMAN. The base investment?

Mr. GILLEN. Without depreciation of the base investment; on the original cost, without having been depreciated.

The CHAIRMAN. That is all. Are there any questions? This is a subject by itself, Mr. Steele.

Mr. STEELE. I understand. As I recollect your testimony, there were 571 of these ships commandeered on the seas?

Mr. GILLEN. I think it is 451. It is hard to keep those figures straight, there are so many of them; but I think it is 451.

Mr. STEELE. Of the 451, Mr. Gillen, do you know how many there are who had contracts with the Government?

Mr. GILLEN. I do not. We made a chart at one time—no, we made a chart at one time of all of the requisitioned ships, much like we have here. We have such a chart here, that will be available to you, if I may cut in on this, I think showing the cost and everything on them all down the line.

Mr. STEELE. You have testified to the freight rates and passenger rates also, that were prevailing just prior to the war. Can you give us any information as to what these various vessels would have earned, just previous to the war, on their base investment.

Mr. GILLEN. No; but it is easy to assume that some of them would make 100 to 150 per cent. But they made it prior to the war, because the lanes of the seas were held open by the Allies. After we went to war the resources of the country were behind the proposition to keep open the lanes for our own national success, and all industries in this country were checked. The War Industries Board took the non-essential industries, and they told them to close their doors; they would not give them steel or coal. They took the motor industry and they cut them 75 per cent on the 1st of April, 1918; on the 1st of August they cut them 50 per cent, and they notified them that the end of the year they would not give them any steel. They took and put in 21 priority orders across this country, closing up all lines of business.

Now—pardon me—they told the packers, “You can get 9 per cent on the stuff you ship over to the Allies.” They told the railroads we will give you the pre-war rate. In other words, they were regulating everything in this country downward, and holding it downward; and so far as I am concerned, when the war broke out I closed my desk and gave my time to the country, and I did not propose, so far as I was concerned—nor do I now or at any time—to have people take an inordinate profit because of conditions that obtained before the war when they had the chances.

Mr. STEELE. I concede what you say; but I was simply asking you the question, what the profits were just previous to the war, on their base investment, so that we could have some information upon that subject.

Mr. GILLEN. It is reported that some trips made me as high as a million dollars in freights, on a boat worth possibly, it would cost—well, you know the prices here. But they were terrific. For instance, I know one case of a boat that we took over from the Barbour Line. It was an old boat that they purchased and paid \$200,000 for, and she was what was considered, Mr. Donald considered should be scrapped. The Barbour Line put \$574,000 in her, making a total of \$774,000. The Government took her as she came off the ways. They operated her for six months, and in that period the Government took, as a net profit, about \$660,000 out of the operation of that boat. She was then sunk by a submarine. That will give you an idea of what there was in the rates.

Mr. STEELE. They ran all the way from a few hundred to a thousand per cent?

Mr. GILLEN. I never estimated, but it was terrific. There are 12 months in the year, and you might figure three round trips across, with war conditions. They would not run as high as 1,000 per cent, but it was terrific.

Mr. STEELE. So I understand. And considering the profits that were made by these various ships at that time, 57 per cent would have been readily earned, and much more, too, by the ships if they had remained the property of the shipowners?

Mr. GILLEN. That is just a mathematical computation.

Mr. STEELE. Yes, sir, which you have already made for us.

Mr. GILLEN. Yes, sir. However, the mathematical computation should not be permitted where it would give great profits in time of war.

Mr. STEELE. So far as the actual contracts entered into and signed by the Government are concerned, you say those were honored by the Shipping Board in the payments they made, and as to the other contracts, it was simply the application of the cotton rule, was it not?

Mr. GILLEN. The cotton rule did not apply in this matter.

Mr. STEELE. This was fixing a rental value, instead of actual value of materials.

Mr. GILLEN. It was fixing a rental value. It was commandeering, you might say. Of course, it is just along the same lines.

Mr. STEELE. But it was fixing a rental value, not based upon the previous earning capacity of the ships, but the rental value as fixed by the board in its own judgment?

Mr. GILLEN. It was fixing a profit upon base investment of the owner of that property, whether it was motor cars, or whether it was office buildings in New York, or whether it was shipping. Dollars in war are all the same, and the shipping interests' dollars are no more sacred than the dollar that is invested in the plant of a Johnny Willys out in Toledo, where the Government walked in and took the very middle of his plant out, in order to put in certain forgings that they wanted for war purposes, and split his plant in two. His dollars invested are entitled to just as much consideration in war; or the fellow that has got a candy shop, who is shut off from getting his sugar, as the shipping dollars are.

One more point: The shipping dollars had something more; they had an absolute insurance of return of the full value of their property in cases of loss, and they had the absolute insurance of a very handsome profit during the war, while the priority orders in this country shut down all the other fellows, and did not give them any insurance as to the profits during the war. That is the difference.

Mr. STEELE. Well, it comes down, after all, to the Shipping Board having fixed a rental value.

Mr. GILLEN. Yes.

Mr. STEELE. According to their own notion as to what the value should be?

Mr. GILLEN. That is a discretionary right, granted them by Congress. We are analyzing what they did, not denying their right to do it.

Mr. STEELE. You say that nearly all of them accepted that rental value as fixed by the board?

Mr. GILLEN. Yes.

Mr. STEELE. You do not know the proportion of ships upon which contracts have been entered into and were paid?

Mr. GILLEN. If you take the passenger ships and tankers out, pretty nearly all the cargo boat owners did, except some cargo boats that were in special coal trade, as subsidiary to a steel corporation, for instance, either hauling ore or coal. There was trouble there. And we had trouble again with some specially built cargo boats, that I think Pershing took over, which had great big hatchways that had been built for the special needs of the owner, and Pershing took them over because he could drop a locomotive right down on the center of them and those people would not accept \$4.15; but I can not give you the number of them.

Mr. STEELE. What I was really trying to get at, Mr. Gillen, was what number of these 451 vessels were compensated for on this 57 per cent basis that you figure out?

Mr. GILLEN. I could not tell you.

Mr. STEELE. Was it large or small; can you approximate it?

Mr. GILLEN. I should say it would be quite large.

Mr. STEELE. You say it was quite large?

Mr. GILLEN. Oh, yes; because the boats we had under the American flag—

Mr. STEELE. And out of those that you have fixed you say only one has appealed to the Court of Claims?

Mr. GILLEN. I think it is only one; that is the last I heard of it, there is only one of them.

Mr. STEELE. There is no decision of the Court of Claims upon the matter that you know of, has there been?

Mr. GILLEN. No. In other words, that is some more of this resistance and the establishment of a principle that they all understand. Payne did that; he established the principle, the system, and he had the resistance too, and they all liked it; and I want to say this, in behalf of the tanker men who held out in the first instance, and the passenger men who did, when they realized the situation and got an analysis of it, with what happened in the other industries of America, they came in and they did not give us one bit of trouble, not a particle. They were not obstreperous.

Mr. STEELE. That simply supports your previous statements that the shipping interests acted fairly toward the board, in the main.

Mr. GILLEN. Unanswered by the witness. May I say this to you, the average business man is going to drive a contract which he believes a profitable contract, as he sees it. He does not see profiteering; when he is making a contract the human element is involved, and he makes the best contract he can. But I maintain that the Government owes it to the taxpayers to have the resistance and the analysis on the other side of the board to meet the trader; that is what I mean.

Mr. STEELE. Yes; and the trader has the same resistance as the Shipping Board has; he would rather have the money than appeal to a court and have the trouble of litigation.

Mr. GILLEN. Well, if you got 54 per cent on your Liberty bonds during the war, you would not think about going to the Court of Claims, would you?

Mr. STEELE. Now referring to the basis upon which you have calculated the British values, that was the valuation at the beginning of the war in 1914, at the outset?

Mr. GILLEN. I did not put the valuation of the tonnage of the British boats in, if you will notice, because I did not have that; but I did have the price they paid per ton, and that reflects it, in itself. You can analyze it down there the other way. Apparently, from the British figures, the great base of their tonnage was \$76 or \$80 a ton, and on those figures there they got a good rate, just like we paid our people in war; they got a fair rate.

Mr. STEELE. You gave us the figures awhile ago as to the rise in value of American tonnage from the start of the World's War down to the time when America entered the war; there was a progressive rise there?

Mr. GILLEN. Yes; but it was a false one. It was a war rise in value, which was not a natural one, sustained on unnatural conditions, and it must go back, and they should not have been paid profits on the basis of that.

Mr. STEELE. So, instead of basing it upon that gradual rise of value, the British Government based it upon the original value at the outset of the war?

Mr. GILLEN. Yes.

Mr. STEELE. And that is what you did in the final analysis?

Mr. GILLEN. I did something more than that. I fixed it the same way as all other industries in America were treated by the Government, by the Army or the Navy, and the Aircraft, and the same as the Shipping Board did when it came to let its other contracts. In other words, when the Shipping Board made its contracts with the Bethlehem Steel Co. it made them on a 10 per cent basis, but when it let its contracts for rent it let them on an entirely different basis. In other words, all the Shipping Board contracts for construction are on the same basis that all other industry was treated, but when you come to take the basis on which the operations of the ships was treated that is an entirely different thing.

You have an analogous case in the railroads; they did not give the railroads 50, 25, 30, 40 per cent for the rental of the roads, did they, during the war?

Mr. STEELE. No; they took the three previous years of earnings.

Mr. GILLEN. Yes.

Mr. STEELE. But you did not do that with the ships?

Mr. GILLEN. No; but you know what had happened to the railroads prior to that time; you know that the rental was low.

Mr. STEELE. The earnings were low.

Mr. GILLEN. The earnings were low; yes, the earnings were low; there is no question about that. But that is not true in reference to the shipping property. There was a false value in the shipping property; they never had had an Interstate Commerce Commission regulating rates during the war, or you would never have had these rates during the war. On one side you had the Government regulating the railroads and holding them down, on the other there was no regulation and they profiteered to beat the band.

Mr. STEELE. Well, I understand your point of view.

Mr. GILLEN. I think we both understand it.

The CHAIRMAN. The committee will suspend here until 9.30 to-morrow morning.

Mr. GILLEN. Am I to come back again in the morning?

The CHAIRMAN. If you will, please, Mr. Gillen, with your records and papers.

(Whereupon, at 4.30 o'clock p. m., further hearing was adjourned until Thursday, Nov. 18, 1920, at 9.30 o'clock a. m.)

SELECT COMMITTEE ON
UNITED STATES SHIPPING BOARD OPERATIONS,
HOUSE OF REPRESENTATIVES,
New York, November 18, 1920.

The committee met in room 401, United States Post Office Building, at 9.40 o'clock a. m., Hon. Joseph Walsh (chairman) presiding.

Present also: Hon. Patrick H. Kelley and Hon. Henry J. Steele, members of the committee.

TESTIMONY OF MR. MARTIN J. GILLEN—Resumed.

The CHAIRMAN. Mr. Steele, you were asking some questions when we adjourned last evening. Have you anything further?

Mr. STEELE. Not on that branch.

Mr. KELLEY. I have none.

The CHAIRMAN. Mr. Gillen, what have you to say with reference to the settlement with the wood shipbuilders? Were they being settled in October when you came into the board or the Fleet Corporation?

Mr. GILLEN. The wood shipbuilders, the contractors who had received contracts from the Government, had had those contracts practically all canceled before Judge Payne became chairman. A few of those cases had been settled, and I think a few of them were settled after Judge Payne came with the board. They were settled over in Philadelphia, and it was some three months after, say, October 1, 1919, before Judge Payne got into the Philadelphia situation, where the Claims Board was operating. How many of those wood ship cases were settled I do not know. I believe some of them were, but not a very large percentage.

In November, 1919, there were a number of wood ship cases practically settled, ready to be passed over and awards made on them. But a great deal of friction occurred in Philadelphia in the legal department as to whether it was right to settle them on the legal terms they were being settled on. I went over there for Judge Payne and spent a day with the legal department, Mr. Ackerson and a Mr. Levy, the latter named was then at the head of the Claims Board. There was some real trouble there; there was a divided camp, and all of the wood ship cases were being held up because they could not come to a decision on legal principles.

We prepared five prime cases—that is, the cases of five different contractors, to cover every phase of the legal questions that were raised—and we had the contractors prepare their side and our boys prepare our side, and I think in the latter part of November or in December, 1919, we arranged for a hearing before Judge Payne. He

tried and determined those five cases and settled the cases so far as the Shipping Board was concerned, but the settlement was not acceptable to the wood shipbuilders, and they were forced to go to Congress for relief.

It might be said on behalf of the wood shipbuilders that it is unfortunate that the law does not permit the Shipping Board or the Emergency Fleet Corporation to grant them part of the aid which they asked for. The records of the Shipping Board show that Mr. Hurley promised, at a conference had with the wood shipbuilders, that they would get work for three turns of the way. Then they tied the contractors on the contracts which did not take care of three turns of the ways. In other words, most of them were given contracts for one turn of the ways. Into those contracts was written the amortization that they were to receive per ship.

The specifications were changed shortly after they got these contracts, a great deal of trouble occurred, and then the Shipping Board canceled all of those contracts, which left these fellows up in the air, getting at most a third of the amortization of their plants.

Many people believe that the Government should not pay amortization to contractors. As to that the policy of Judge Payne, and of the board, and, I think of all the men who have worked on the subject, is that when this Nation goes to war and it must have any certain material, whether finished or raw, after the war is over and that need is through with and there is not any further large use for the equipment that was built or installed for the purpose of getting out that material or those units, the Government must charge to itself and pay for that equipment.

Now, in the contracts that were made with the wood shipbuilders the Shipping Board did not protect those wood shipbuilders and they are left high and dry to-day because we have no legal power to give them that which they were entitled to and which the Army, the Navy, and the Aircraft and every other department of the Government did give to the contractors that it did business with where it required them to build new facilities which did not have value after the war was over.

The CHAIRMAN. But there was no provision in the contract that these men made, was there?

Mr. GILLEN. There was no provision in the contract, Mr. Chairman, but these contractors were all brought to Washington, and there they were induced to take the first contracts upon the representation made to them that there would be three turns of the ways. They were induced to put their own capital into plants, of which the original contracts would not amortize more than 33½ per cent. In other words, there is no question about the inducement, and it was one set of cases in which I personally felt very sorry for the contractors. For those other contractors who went through with their contracts and made a lot of money we never had much sorrow or regret, except to give them justice, but in this particular class of cases we have always felt that they did not get the consideration they were entitled to.

The CHAIRMAN. Well, they did not lose any money on the one turn of the ways, did they?

Mr. GILLEN. They did; oh, yes.

The CHAIRMAN. They lost money?

Mr. GILLEN. Oh, yes; their own capital. Many of them have lost all the capital they put in there. Many of them.

The CHAIRMAN. How did that loss occur. The Government furnished the material and took care of the excess wage award, the extra transportation charges, and paid them a fairly substantial sum for the tonnage that they launched. How did the loss occur?

Mr. GILLEN. Well, assume that I had never been in the shipbuilding business before, and we will assume that I live in one of the river cities near the ocean near one of the small coast cities of North Carolina. It is determined in my city that, with the Government making a "call" for the establishment of wood shipyards there being only a very limited number in the United States, we should get together and raise \$105,000 to buy the land for our corporation, put the ways in, and put the equipment in. It is expected when we do that that we will get enough work to pay for the equipment and for our preparation, the actual money that we put in there, so that after the war we will be able at least to come out whole by the sale of the land and the equipment at after-war prices.

Now, they were promised three turns of the ways, and on the first contract they had, say, five boats. The Government would allow \$7,000, I think it was in the southern ports, per boat for amortization. If they had five ways a man could have an amortization of five times seven, or \$35,000. When that man put his money in there, he had to be assured he would get an amortization of \$105,000—three turns of the ways. In other words, his original investment was \$105,000 and in order to get his \$105,000 he would have to get three times seven, or 21 boats; because the Government limited him as to the amount of his amortization, and they limited him on the theory that they would give him three turns of the ways. That is where they lost their money. The war did not continue, and these men did not have a protective condition in their contracts.

The CHAIRMAN. That would only apply, of course, to cases where the contractor built the plant or the ways?

Mr. GILLEN. No, that is not true. That would apply also to cases where the contractor purchased a plant that had already been built. There were no wood shipbuilding plants in America, or very few, and every one of these fellows who—well, they had to build a great many new shipyards. I can not give you the percentage, but as I look back on it in reflection I should say that about 80 per cent of the shipbuilders who built wooden ships were new shipbuilders, and they either built the equipment themselves and put their money into it, or they bought and installed new equipment.

The CHAIRMAN. Well, in many instances the Government built yards?

Mr. GILLEN. That would come out in reflections. Where that occurred they would not need any amortization. I am speaking of the cases where the man put his capital in and we did not allow him any amortization. Cases of that kind would not slip through under the system that is in operation down there.

The CHAIRMAN. Were there any clauses in any of the contracts that you know about pertaining to the question of cancellation of contracts because of the cessation of the war?

Mr. GILLEN. I do not remember. I do remember when I was on the War Industries Board we were endeavoring to check up the con-

tracts with all of the departments, and in the last four weeks before the armistice I had charge of the question of the cancellation of contracts, and the correcting of the want of formality existing in the contracts, especially in the Army. As a result of that work we had the Dent bill drawn to correct those cases of want of formality, and one of them was the right to have damages when cancellation occurred.

There were many of the Army contracts—I went particularly into that; the Shipping Board I did not, but I imagine the same is true. I know there were many contracts made by the Army where no cancellation provision was included, but the Army exercised the sovereign power of the Government and canceled them.

I remember now, as it comes back to me, that we did the same thing in many contracts. In other words, there were not cancellation clauses, because we had to set up the rule of what profit we would allow them, it not being provided for in the contract. So the rule was set up that we would pay them a percentage on the performance of the canceled contract. In other words, if the contract was three-fourths completed when the cancellation occurred and it was cost-plus 10 per cent, they would get 10 per cent on that three-fourths. For instance, that enters into the Hog Island settlement.

The CHAIRMAN. With reference to these wood ships, Mr. Gillen, do I understand you to say that contracts were awarded for the construction of ships—say, for instance, a yard having five ways would enter into a contract to construct five ships—and there had been a promise made as an inducement to that contract that when they had those five ships constructed they would get five more, and after that five more?

Mr. GILLEN. It was not done just that way.

The CHAIRMAN. Were contracts made for 15 ships?

Mr. GILLEN. No; it was not done that way. They called in all the people that had an idea they would go into the wood ship business, and at that session Mr. Hurley discussed at great length the need of the building of these ships. When the question came up—how are we going to get out of this? If we go into this new business, how are we going to get our money out of it? Mr. Hurley pointed out that there would be at least three turns of the ways, and said to them: “You do not need to have any worry. This war is going to last three or four years”—I forget the number of years, but that they need have no worry, to go ahead and do it.

I am not for waste, but I am for the Government paying for what it needs for the protection of the people, and if it induces people to go in and do work for it in time of war it should absorb or amortize the losses that occur when the war stops. That is one of the burdens of the Government. Judge Payne appeared before one of the Senate committees and one of the House committees and went over this matter at great length, taking practically the same position that I am taking here, that relief should be given to those men.

The CHAIRMAN. There were quite a number of wood ship builders who got more than one turnover of the ways?

Mr. GILLEN. Well, that would correct itself, you know.

The CHAIRMAN. Had there been any audit or appraisal in the case of wood ship contracts?

Mr. GILLEN. I think, as I stated yesterday, on the settlements in the construction division they would audit the yard books; their own books would not give reflection, but they would make the individual audit of the yard books.

The CHAIRMAN. I was referring to the time that these five prime cases were worked up. Had there been definite or complete audit and appraisal made by the Shipping Board on its books at that time?

Mr. GILLEN. Oh, no; they could not. The answer is the same, that it was due to the physical condition of the books there.

The CHAIRMAN. Was there any investigation made of the cancellation, construction, and claims board at any time while you were there?

Mr. GILLEN. We made an investigation. Mr. Raymond Weins, who had been my assistant for a number of years in my private work, and I, went over to Philadelphia about January 1, 1920, and we made a number of careful analyses of the claims, supply, and sales. Mr. Wein made that report in writing. I tried to get in touch with the report, but up to the present time I have not found it.

The CHAIRMAN. Can you give us any information as to the condition you found when you went there, as to the records of the number of claims?

Mr. GILLEN. The claims situation was in a very bad condition. They had not at that time made a tabulation of what we call the prime contracts—that is, the first contracts made between the Government and a shipbuilder to build ships, and the contracts with supply men growing out of those contracts. They had not analyzed them as to districts or sections, and there were blocked up under the system that they were then using over there about 600 or 700 small claims. The settlement of all claims from \$100 up to \$10,000,000 was finding its way through the system they had over before this board—I forget how many members there were on it, but there were at least seven or eight. The examination that we made of that situation showed that this big board would sit on a claim of \$100, \$200, or \$500, and they had not analyzed the kinds of claims that were outstanding nor had they analyzed where those claims were.

In other words, to show what was happening there, in order to make a settlement the auditing department had to work more or less in harmony with the supply and sales department. We will take Crane & Co. of Chicago. I do not know how many contracts Crane had, but he had a great many, because he made valves and fittings. He would get these different orders and contracts. Under the system they were following they did not, for instance, go to Crane and say, "Mr. Crane, give us a list of the contracts you have," or "Mr. Crane, here from our books is a list of all our contracts; we want to make a settlement with you." But they went in there and took up one contract settlement and cleaned it up, and then another contract settlement and clean it up. They had never made an analysis of where the liabilities of the corporation were, or estimated the amount of them. It was in about as chaotic condition, so far as an analysis of the situation was concerned, as any of the departments of the Shipping Board.

Now, it may seem that I am severe in what I am saying, but so far as I am concerned I can not understand how a man carrying the responsibility for a large affair can possibly make a judgment unless he has his business charted before him. In other words, if you want to

apply big principles to the settlement of claims, where they run into almost billions of dollars, you must have your claims charted as to where they are, what amounts they are, what machinery you have for handling them, how your machinery is functioning, and whether there is any place along the line where this situation is being held up.

Now, they had first, as you know, the chaotic condition of the accounting and, second, they had not provided the proper organization to take care of it.

The CHAIRMAN. Did they establish any definite principle for the adjustment of a claim?

Mr. GILLEN. Oh, in the construction division they had established quite a few principles. There were a number settled afterwards by Judge Payne, but they had settled quite a few principles, and the settlements made by the construction division were in error in some part because of the failure to have certain principles well defined, but nowhere or to no extent except in the wood ship cases that have been settled was there an error in their settlements, and they had not made very many settlements before Judge Payne arrived. The records are available; we have made estimates. What they were doing over there was, they were having the whole thing blocked in some way, somewhere before it arrived at the terminal station, which was Philadelphia.

So we took hold of that situation, and I think it was within 30 or 60 days we outlined a new procedure and had it in operation; I think it was by the 1st of March we had cut that board down to three men, took them over to Washington, where they were in close contact with Judge Payne and his machinery, and we started in to clean the situation up. In other words, what we actually did was to force the districts outside to settle all the small claims, claims running up to about \$10,000. There were very many of those; so that our own big board could handle the big cases after the districts had worked on those cases. And they have gotten so far along towards cleaning those claims up that if you had a large matter, or any matter practically, involving a claim, I believe within two days you could get a hearing on that matter.

In other words, from March of this year to the present time the claims situation on requisitioned hulls, as I told you the other day, has been cleaned off the boards with the exception of one case; all the big foreign claims and big tanker claims and big passenger claims are cleaned off the board; all of the big construction claims that have matured during the finished policy in the shipyards are to all practical purposes cleaned off the boards. Now I understand there are about 100 ships more to be completed, some one of the boys told me that the other day, and it may be wrong, but might I point out to you this, that there will be not much trouble in the settlement of those cases, because those are practically the big shipyards that took big contracts and are coming through on a very long haul, and the records of those cases are in pretty good shape, and there will not be much question of cancellation in those cases. So that the claims generally down there are pretty nearly cleaned off the boards.

The CHAIRMAN. Did you find any claims there against the Army or Navy?

Mr. GILLEN. I did.

The CHAIRMAN. What were they for?

Mr. GILLEN. Along in November, 1919, we picked up the fact that there was a large unsettled claim with the Army. Col. Abadie was then comptroller. He endeavored to find from his records what that claim consisted of, and in the first instance he reported back that it could be but very little, because Congress had made it the law that the Army and Navy were not to be charged with charter hire during the war, but after he got digging into it and he started to get his accounts up, and finally did get an account up—if you will look at that (showing large volume of schedules) you will see what shape it is in here, where we could get of it—he found that there were charges running somewhere around \$200,000,000.

Mr. KELLEY. That is against the Army and Navy?

Mr. GILLEN. That is against the Army. He found that the Navy owed the Shipping Board very little money, and it must be said to the credit of the Navy and of its auditing department that it paid its bills most promptly to the Shipping Board, and its dealings with the Shipping Board, from the standpoint of paying its bills, is to be highly commended, and I think that at no time did they owe us much more than a current account, while I was there.

With the Army it was an entirely different thing. We had great trouble with the Army; we could not get anywhere with them. They asked us to furnish them an account, and we got an account up. We asked them to please let us have a reflection of it from their books; we never got it. I suggested to Judge Payne, when we found it was as large a sum as this, that since the Shipping Board had expended the cash money we should be reimbursed, but that it would cost the Government somewhere around \$300,000 for the Shipping Board to audit out these charges, and possibly the same amount over to the War Department, and I suggested to the judge that he ask the Secretary of War if it would not be a nice thing if we canceled all of those charges and let Congress take care of us by way of appropriation, and take it out of their appropriation, and save the money and the time and the waste, because the Shipping Board had to clean these things off and get somewhere, and if we clean these off—the moneys had been actually expended, we had the vouchers; it was just a question of a department fight as to whether we had the authority and whether they would pay us back.

For instance, we would let them take ships that we had requisitioned on the high seas, ships belonging to private owners, as was the law. We were under contract with those owners to deliver back their boats or to pay the insurance on them. The Shipping Board carried its own insurance. We, under our contract charter hire, were compelled to fix the damages for the destruction of the ship.

They had appraisal machinery down there, and it was very good machinery, too, very competent men, naval architects and insurance men; they would make the surveys and find the value of the loss of the boat submarined in the service of the Army. Then we would have to pay the man who owned the boat. We would do it. We would then send the notification over to the Army and they would hold a regular survey, and did from time to time, on the boats on which we were primarily liable under contract for, on the theory that they had an appropriation from Congress and they had to spend

that very carefully. They set up the survey and appraisal machinery, and they used that machinery in case after case, where we gave them the boat that belonged to somebody else, and the primary charter contract was upon the Shipping Board to pay the damages; and in all cases we did pay the damage, and then when we would send out bills over there they would not come through and take care of those bills.

The CHAIRMAN. They would use their survey machinery, but would not pay the bills?

Mr. GILLEN. They would pay what they found and leave us in the air for the difference we had paid. Now, that was one cause of trouble. Then during the war they were not to pay us charter hire; that was the law, but they were to pay for all expenses of operating those ships. Well, the Shipping Board paid for the expenses of operating the ships, and therein again a lot of the trouble arose, because they would not accept the vouchers and the charges, and it was just one department taking another department's bills and playing with them, while the taxpayer paid for it.

This is a report of June 22, 1920, brought pretty well down to date now. It is from the chief control accountant, Alonzo Tweedale, "Charges to the United States War Department by the United States Shipping Board and Emergency Fleet Corporation, not yet recovered as at May 31, 1920."

"Section 1, charges to the War Department from the Shipping Board and the Fleet Corporation not yet recovered as at May 31, 1920," which show on Exhibits A to D, and the supporting schedules, of which the following is a summary:

Exhibit A, disbursing officers, charges, \$6,800,000 plus.

Exhibit B, owned vessels, lost charges, \$14,000,000 plus.

Exhibit C, division of construction charges, \$50,700,000 plus, and in that is about 11 boats that were built by the Emergency Fleet—transports. Funds appropriated for the building of the fleet were used to build those boats, and we have charged it over to the Army, and we have requested them to pay for that building for their account.

The CHAIRMAN. They also have an appropriation for that purpose?

Mr. GILLEN. That I do not know. I suppose they have, if they ordered the work.

Exhibit D, division of operations, \$136,585,000, a sum total of \$208,243,795.72.

The CHAIRMAN. That is exclusive of charter hire, which was not permitted to be charged?

Mr. GILLEN. I suppose it is. But let me go ahead and give you the balance:

Division 2, comments on all the exhibits in the order above follows.

The answer will come directly. The \$50,700,000 plus item on construction is divided into three classes: Charges based on executive orders, \$3,860,000; estimated charges for ship construction, schedule 2, \$32,769,000; the third item, estimated charges for the conversion of cargo vessels into troop ships, schedule 3, \$14,000,000.

The \$14,000,000 charge is further explained by this language: "The charges for conversion of cargo vessels into troop ships, amounting to \$14,106,848.49, represents the estimated cost of charges and extras due to changes in design ordered by the War Department."

The item of \$136,000,000 plus is explained in the following language: "Division of operations, charges \$136,500,000 plus. The following is a condensed summary of the charges of the division of operations against the War Department, showing the character of the charges and the status of the billing, and more fully detailed on Exhibit D."

This is a very fine analysis of the claims of the Shipping Board against the War Department. Whether you want it to go in as part of your record, or what you want done with it, I do not know.

The CHAIRMAN. Has it been printed in document form, do you know?

Mr. GILLEN. It has not; no. It is a pretty heavy record to put into your record.

Mr. STEELE. I think probably a summary of it will be sufficient.

Mr. GILLEN. Before you decide on whether to take this in, I would like to say something further. You notice it is dated June 22, 1920; some water has gone over the dam since then.

Mr. STEELE. This matter has never been adjusted, has it?

Mr. GILLEN. Not yet.

The CHAIRMAN. Mr. Gillen, you said that this was dated June 22, 1920.

Mr. GILLEN. Yes, sir.

The CHAIRMAN. I believe there was something further to which you wished to direct our attention.

Mr. GILLEN. This is one of the matters that I gave my special attention to. In other words, I drove very hard to get the Army to straighten out these accounts. Mr. Frank Hines, who is now a brigadier general, held up and retarded that account for months and months and months. I don't believe that the Secretary of War is in a large way personally to blame, but Gen. Hines took a special delight in blocking the Shipping Board. But a very fortunate thing happened; he left the Army and became interested in one of the Shipping Board operating companies, and overnight he was a suppliant before Admiral Benson, having quit the Army, and then things began to open up over there.

It was pointed out to the War Department in June and July, before I left there, by Admiral Benson, in a very forcible way, that we had to have some payments on account. I am informed that in September they made a payment of either \$30,000,000 or \$40,000,000—I believe it was \$30,000,000—and if it were not for the fact that they had made that payment of \$30,000,000 the Shipping Board and the Emergency Fleet would have \$20,000,000 left of their appropriations, cash on hand, to operate on, with a big construction program still on.

Now going back a minute, to get the reflection of this, Judge Payne left the 1st of March, 1920. Application had been made for an additional appropriation from Congress for the building program, and after our financial situation was carefully worked out, as carefully as we could work it out, we saw what our future commitments were, Judge Payne decided that he would not ask for any appropriation from Congress. He had in mind this claim that was coming to him; and he left, and Chairman Good called for a representative of the Shipping Board to go up there, and I went up and I outlined to Chairman Good, frankly, some of these things that you have heard here in the last day and a half, and I pointed out to him that we should not

be given any appropriation, we should be compelled to collect our receivables in, and that I believed there were enough receivables there to run the Emergency Fleet and Shipping Board, with what cash we then had, up to the time that Congress would go in session in December.

There was considerable criticism of me by some of the members of the Appropriations Committee to some of the members of the Senate Commerce Committee and especially to Senator Jones, because I had honestly and fearlessly pointed out the conditions, and said, "No appropriation, and this is the situation." Senator Jones afterwards resented, apparently very deeply, the fact that I had talked so frankly before the Appropriations Committee, in which I analyzed the personnel and the situation. Now you know what the appropriation bill was; it denied us any moneys and it compelled us to get after funds just like this, and the situation was pointed out to the War Department as early as June, the latter part of May, that if we did not have this money from them we would not have enough to run to December 1 or December 6, whenever Congress met, and it seemed to have had some influence, because they got a lump sum of either thirty or forty million dollars, a payment on account, if you please, not payment as they had paid heretofore, by paying as against vouchers, but they have paid against vouchers that have not been passed in their department.

The CHAIRMAN. Was there any claim there against the Food Administration?

Mr. GILLEN. There was.

The CHAIRMAN. How much was that claim, if you know?

Mr. GILLEN. I can not from this statement here get the facts, but I can give you approximately the situation. As you know, the Food Administration used quite a number of the Shipping Board ships to carry food and grain across the water during the war and the Food Administration made a demand upon the Shipping Board that since they were carrying food for stricken Europe the Shipping Board should not make a profit out of the transaction; and Mr. Stevens—Ray Stevens, the commissioner—had this particular matter in hand, and it was taken up with the President, and it was pointed out that we were making these big profits on the Shipping Board boats, and that a reduction should be made in the freight rates—I think it was suggested 25 per cent.

And when the Food Administration finally got around to settle its balance with the Shipping Board there was approximately fifteen and one-half million dollars that they cut out of our bill. There was no record gathered of the boats that we had given them, of the expenses that had been incurred, and I started a crew of men to work on it in Col. Abadie's office in November—that was the little "*nig!t*" organization that I set up to go into the big matters—and in February, 1920, the first report came. At once Mr. Ray Stevens, commissioner, took the position that they did not owe us anything, after we got this report together. He had never done a day's work on it, and he never did a day's work on getting up any analysis of accounts. He was very friendly with Mr. Hoover, they were great friends, and he took the position that the President had intervened.

Then I produced the figures to show that on our general statement as we then had it—we were in shape to know something about the profits—the way to figure the profits of our boats was to take our

entire fleet, like any big corporation. You might make a profit on 10 or 20 or 30 boats in a trade over here, but the profit would be on our entire fleet, and that our gross freight rates would have to sustain all along the line to take care of the profits, and I showed him there was no such animal as 25 per cent profit.

The board passed a resolution—there were some other disputed items in there, of demurrage—after some argument it was determined by resolution that Mr. Stevens be instructed to make a trade, for, I think either eleven and one-half or thirteen million dollars. Now, he had nothing to do with digging up these records or getting them in shape, and he did not have a financial mind nor an analytical mind; and he went over and made a trade for nine million and a half of dollars. I did not know anything about it, and it was one of the things that I took special interest in. I took it up with Admiral Benson, and the admiral said, "Well, I regret it, it happened just as I came here, and the power was given to him to settle on one basis and he came back and said he could only settle for nine and a half million dollars, and the settlement was made."

However, the Comptroller of the Treasury got into it, and since has refused to accept the settlement, and he says that the Shipping Board has no right to make a compromise of that bill in that manner, and give away the property or the moneys appropriated by Congress.

The one thing that Judge Payne tried to impress on everybody, commissioners as well as on the State Department, the Army and the Navy, was that the funds appropriated for the Shipping Board Emergency Fleet Corporation must be used according to law, and that the other departments could not use our appropriations and thus avoid the law, and if it were to be done it must be done by congressional action, such as for instance having Congress say that the Army did not owe us anything and give us an appropriation in lieu thereof. In other words, if you watch and look over the accounts you will find that the Army worked the Shipping Board and worked them heavily; you will find that the Food Administration did likewise; and when the question came up on the foreign claims in the State Department, we took the position that we would not pay one dollar found by the State Department, that it was the duty of the State Department if it found on any of these foreign claims, to take the claim to Congress and have Congress in due course pay it. Judge Payne took that position with the Secretary of State, and we began to harden up that institution and stop the other departments from coming in and using up our appropriation.

The CHAIRMAN. From the Shipping Board standpoint, Mr. Gillen, is there any reason why, if Shipping Board vessels are used by the Navy and paid for by the Navy from its appropriation, the Army or the Food Administration or any other Government department should not also refund or pay the Shipping Board?

Mr. GILLEN. Except where by statute they are relieved.

The CHAIRMAN. I mean, except it is under authorization by Congress.

Mr. GILLEN. No, sir.

The CHAIRMAN. Do you have any approximate figure as to how much the Navy paid the Shipping Board?

Mr. GILLEN. I could not give it, but I will say that they promptly took care of their bills.

The CHAIRMAN. Was it any considerable sum?

Mr. GILLEN. Oh, yes; they had quite a few of our boats, and quite a few transactions; but it did not run as heavy as the Army, because the Army took care in the main of the transportation of men and material overseas.

The CHAIRMAN. Did the Shipping Board build or operate or commandeer or requisition any refrigerator boats?

Mr. GILLEN. It did.

The CHAIRMAN. How many?

Mr. GILLEN. I could not tell you how many, it had built some refrigerator boats.

The CHAIRMAN. Has it operated them?

Mr. GILLEN. Yes.

The CHAIRMAN. What do you know about that matter?

Mr. GILLEN. Well, one thing, while I was on the Shipping Board I have kept away from the division of operations, because I felt that there was enough work there to get this big back stuff cleaned off, and the establishment of principles with reference to all of the war wastage that was there, so that the Shipping Board itself could function as the law provides, and let it handle the boats and handle the laws in relation thereto. Consequently I endeavored to keep away as far as I could at all times from the question of operations, except where I was called in; for instance, on making the agreement with the operators I was called in there, and I was called in on the tanker cases, and I have been called in now and then; not that Judge Payne did not want me to do it, or Admiral Benson, but I felt that I could do a greater work by getting wastage cleared off.

The refrigerator boats that we owned were not given to refrigerator operators; in other words, they were given to some of those operators that had never had any experience in shipping, and they would load the refrigerator boats down, we will say, with meat or refrigerated cargo, and when they would come to take the return cargo they would load it with stuff that would smash the refrigeration all to pieces. I think there is hardly a case of a round trip of a refrigerator boat that she did not come back, when we took out the return cargo, in bad shape. You can get the record. There are not very many of them; I think there are only five refrigerator ships. A young man came in to me from New York, who was in the refrigerator business, and he pointed out to me that he had asked for an allocation of refrigerator boats and he could not get the boats, and he told me that someone else had gotten them. He told me how the rates had been cut under him on meat, and how it was ruining him; that his had been one of the pioneer companies buying boats from the Shipping Board, and yet they did not give him consideration, but they gave these boats to an operator who had no money in the business.

The CHAIRMAN. Did he say when this was done?

Mr. GILLEN. Oh, yes; you can get the record. So much passed by there. I will give you enough so you can look it up. I will give you briefly the story. I said, "Come with me," and went upstairs to the admiral.

The CHAIRMAN. Admiral Benson?

Mr. GILLEN. Admiral Benson; and the admiral gave him a fine session and put an order in that if refrigerator boats could not be run economically without ruining them on the return voyage they

should be laid up, and that refrigerator operators should handle those boats. As the admiral said, "If I am in the business of hauling lime and cement, I won't use a Packard automobile for that purpose, but I will get a truck for that purpose."

And I want to stop just for one minute and say this as to Admiral Benson: In my life, in the meeting of men, I have never met a finer, stronger, cleaner, more courageous character than Admiral Benson, and it has been a wonder to me that he has done as well as he has done there, without proper accounting and without an organization of a board about him, struggling with big principles in a pioneer business twice the size of the United States Steel Corporation; and never did I go to Admiral Benson with an important matter but what Admiral Benson, when it was analyzed, or where he could see it, acted at once.

I want to say further that he has the best knowledge of operating ships of any man that I met in connection with the board, from the time I came to the time I left. Judge Payne had very little knowledge of the business of operating ships or navigation. He never had much of an occasion to use it, because of that terrific condition that was there that he was trying to clean out of the way, so that someone could come in with a free hand to operate the fleet. Admiral Benson's life has been spent on the sea; he knows boats from stem to stern; he knows the ports of the world; he knows the trade routes of the world, and for the first time when Admiral Benson came onto the board did I hear real shipping matters discussed in an intelligent way. He began to check the operating end of the Shipping Board.

The CHAIRMAN. Mr. Gillen, did you make any inquiry into the matter of cost-plus contracts awarded by the Shipping Board and the matter of exorbitant profits or large profits accruing to contractors under the policy adopted?

Mr. GILLEN. I did.

The CHAIRMAN. Did you make any study of the cost-plus plan with relation to the war program of the Government, and did you prepare a pamphlet upon it?

Mr. GILLEN. I did.

The CHAIRMAN. I hand you a pamphlet dated May 14, 1917, and ask you if that is the document you prepared?

Mr. GILLEN. It is.

The CHAIRMAN. Will you state how you came to prepare that document and, briefly, what it contains with reference to that?

Mr. GILLEN. As president of the Mitchell Wagon Co., and as one of the managing directors of the Mitchell-Lewis Motor Co., we had and operated for three years while I had charge of those properties, a cost-plus contract between the motor company and the wagon company for the manufacture of bodies. We got that contract, or the basic principles of that contract, from John Deer & Co., a big farm implement house that has many subsidiary companies, and it becomes necessary for them to contract with these subsidiary companies. I had also had experience during this period, while we were running cost plus, to learn what the elementary principles of it were and what should be put in in order to protect one contracting under cost plus, and while we were operating under these contracts I was either bidding or endeavoring to get contracts with the French Government, the British Government, the Italian Government, and the

Russian Government, and I saw how they were placing their contracts in this country, and I saw what would occur in the event that we went to war in this country under the competitive system.

When the war broke out, along in the last week of April, of the first month of the war, I received a request to come to Washington and join a little committee of seven men, who spent a week preparing for the program and the things to be discussed by the representatives of the States of the Union that had been called in session in Washington, in order to stir up their states for war purposes.

The CHAIRMAN. What representatives of the States?

Mr. GILLEN. I think there was a governor and one representative from each of the States. They arrived in Washington I think the 1st of May, within less than 30 days after this war had started, and I met Mr. Howard Coffin for the first time. He had laid out a plan of industrial mobilization, called the "Coffin plan." I had laid out a plan called the "Gillen plan," the basic principles of which were adopted in the War Industries Board plan of organization.

On the Friday night of the week in which we had our session, Mr. Coffin invited me to go to dinner with him, and while there he pointed out to me the troubles that the Advisory Council of Defense was having on its contracts, under the competitive system of letting contracts then in vogue with the Army and the Navy and the different departments of the Government; and he gave as an illustration that the Government was in the market for 40,000 wagons, and that the total of the competitive bids that had come to the Government amounted to some 300,000 wagons, there being 28 contracting wagon manufacturers, and they produced bids of about 300,000.

He then pointed out that the wagon manufacturers had to go into the market to cover these, for steel and paint and lumber and everything else; and thus the Government was bidding in the market for 300,000 wagons, so far as material was concerned. He then pointed out many other things that the Government would need, and that a terrific drive up in price would occur in all the materials in this country by using the system of competitive bidding. I said to him: "Mr. Coffin, there is a very simple remedy for that." He again pointed out to me that he did not know where they could get the force of men in the Army and the Navy and the then Shipping Board which was starting, and the aircraft, which they had in mind, to get the necessary force of men to take care of competitive bidding. That was not an easy thing to handle, to take care of the specifications, unless men are clever in the placing of bids with responsible people, because irresponsible men will over-bid, when they do not have the necessary facilities; and there are a number of other very vital things to be looked at. I said to him, "All that can be eliminated in all departments of the Government by the cost-plus system." He asked me what the cost plus meant, and I pointed out what cost-plus was and what might be done under cost plus.

In other words, that if they had proper principles in effect, which could be put in over night, that all they would have to know would be the amount of material necessary; that they could call in the group of manufacturers, as I pointed out to him and as he afterwards tested out. I said, "On this wagon contract, you can call in the wagon men together as a group." That was the theory in my war mobilization plan. I said, "You can get them in Chicago within less than two

days. You can put your 40,000 requirements on the board and can ask these men to apportion and distribute the orders among their plants and thus not disturb the wagon industry, as such, nor disturb the market for material beyond the requirement for the 40,000." I added, "Then, too, these men know just where to get that material." I then gave him the name of Mr. Ed Parsonage, of the John Deere Co., to get the wagon men together.

He then asked me if I would prepare my suggestions on cost plus. In the week I had been in Washington I had picked up a great deal of information in reference to contracts let; plans of the Government in reference to the purchasing of raw material; in reference to the ship-building program; in reference to the Army program, because we had sessions with the officials of the Government who had charge of those matters, and everything was put on the boards before us while there.

I went home on Saturday and wrote out the cost plus plan, and on May 14 put 20,000 in the mail. I sent one to every Army and Navy officer from the rank of lieutenant up, to every United States Senator and to every Congressman, to all the executive officers of the Government, to about 3,000 manufacturers, to all the war organizations, and to individuals who were at Washington doing war work. Within seven days after the issuance of that pamphlet, the Government, in all its departments, went to work on cost plus—but they never put the simple elementary protective provisions that should have gone into a Government contract, provisions which any lawyer who had experience in cost plus could have written into a contract. Two small paragraphs that would have saved the Government, not millions—and it may seem as though I am using figures carelessly—but, without question, they would have saved the Government some billions of dollars, because contracts, that were made by the Army, the Navy, aircraft, and the Shipping Board, were wide open and did not protect the Government and allowed costs to soar.

The CHAIRMAN. Now, Mr. Gillen, with reference to Shipping Board contracts, will you state, if you know, how many different kinds of contracts they entered into, as you learned from your inquiry.

Mr. GILLEN. May I make an illustration first, before I give the contracts?

The CHAIRMAN. Perhaps you prefer to state what was left out of those contracts, and then you can give us the different kinds of contracts.

Mr. GILLEN. I have written it out, so that it may not be left to loose language.

The CHAIRMAN. Have you it prepared there?

Mr. GILLEN. Yes, sir; I have it prepared.

The CHAIRMAN. If you can give us that, all right.

Mr. GILLEN. I will do so.

The CHAIRMAN. Perhaps you can just give us the gist of it, and if so, you may do so, and then you may put it in the record in full afterward.

Mr. GILLEN. No, I prefer to give it right to you as I have prepared it, so that it may be definite.

The CHAIRMAN. All right. If you will read the statement we will be glad to have it, and you may now proceed.

Mr. GILLEN. The great bulk of contracts let by the Emergency Fleet was on the basis of cost plus, used in one form or another. Under these contracts but very little protection was given to the Government because of the failure to understand the underlying principles of cost plus. In other words, it will now be noted that the Shipping Board made different kinds of contracts with different corporations. They did not have one form of contract covering a given product, with some changes as to the different conditions, as to expansion of plant, or the buying of equipment. I mean that they had six different forms of contracts under which the contractor was paid for service in building ships.

A simple illustration will make comments which follow perfectly clear: If one were contracting for 1,000 motor cars, the cost of which to the producer was \$1,000 each, and a profit of 10 per cent was to be allowed thereon, it will at once appear that the 10 per cent profit is for the service of producing the 1,000 cars and should be 10 per cent on \$1,000,000, or \$100,000. Now, if the producing manufacturer afterwards is compelled to pay higher wages to his labor and is compelled to pay higher rates of transportation to the railroad companies, and is compelled to pay larger prices for material, then the Government should absorb those additional expenses, but no additional percentage of profit to the contractor should be allowed on those additional elements. In a word, if the 1,000 motor cars finally cost the producer \$2,000 a piece, or, \$2,000,000, the contractor gives no greater service and should not be entitled to receive 10 per cent on \$2,000,000, or \$200,000 profit.

Cost-plus was adopted overnight by the Army, Navy, Shipping Board, and aircraft in all the purchases that were made, and while in a few cases they did not allow the contractor the 10 per cent profit on additional wage reimbursement, yet, in nearly all cases the Government did allow, by contract, the 10 per cent profit on excess railway transportation, excess cost of material, and in a great number of cases allowed the contractors to increase their administrative and overhead expenses by paying large salaries and bonuses to the administrative officers, and paid not only the increases, but a profit thereon.

The contracts as made did not protect the Government. There was no settled policy under which one set of contracting prices was established for people building ships for the Government. In a word, a general principle was not established which was available to all parties contracting with the Emergency Fleet Corporation, and which all could understand, and which would protect the Government. This is also true as to the rule of amortization and cancellation damages. The most simple protective provisions, which are well known under cost-plus, were not put into their contracts.

However, in the early part of October, 1919, the accounting department of the Emergency Fleet endeavored to correct, by refinement and interpretation, these contractual defects that were in those contracts, and have been able to correct to some material extent the profit paid on increased wages, but have never been able to correct the profit paid on increased costs of material, railway transportation, and the excesses that occurred in the early period on overhead charges, as well as to amortization and cancellation charges. On the direct

cost-plus contracts, no release can be given to the Government even on the profit on increased labor costs.

Cost-plus contracts of the Emergency Fleet Corporation are set up into six classes. As an evidence that there was no well-settled policy which applied a single principle, so that all contractors would be treated alike, and the Government receive its protection, the following types of contracts were entered into by the Emergency Fleet:

(1) *Cost plus fixed percentage*.—Examples: Contract No. 151, dated December 14, 1917, with the New York Shipbuilding Co., for three transports, at cost plus 10 per cent. Contract No. 182, dated December 31, 1917, with the Bethlehem Shipbuilding Corporation, for two transports at cost plus 10 per cent.

Under these two contracts, the agent received a profit on increased wage cost.

(2) *Cost plus fixed fee*.—Examples: Contract No. 11 W. H. dated June 4, 1917, with Sanderson & Porter, for 10 wooden hulls, at cost plus fixed fee of \$20,000. Contract No. 14 W. H. dated June 3, 1917, with the Foundation Co., for 10 wooden hulls at cost plus a fixed fee of \$20,000.

The agent enjoyed no profit on increased wage costs under this class of contract.

(3) *Cost plus fixed fee and half savings*.—Examples: Contracts Nos. 177, 178, 179, 183, 184, 191, and 196, with the Bethlehem Shipbuilding Corporation, all under date of December 31, 1917, for steel ships, to be built at actual cost plus a fixed fee for each hull and plus half the savings under an estimated or basis price.

There were a number of other similar contracts with the Bethlehem Shipbuilding Corporation and with other shipbuilders.

Under this class of contract the agent did not receive any profit on increased wage cost, although increased wage cost and changes and extras were added to the basic price to make up a revised price. The contractor received half the amount by which the actual cost fell short of the revised price. However, this gave no profit to the contractor on the increased wage cost or other increases, as, naturally, his actual cost was increased by wage increases in exactly the same amounts as the basic price was increased.

But many contracts were let under that method of cost plus and fixed fee plus half savings. But at that time in the Emergency Fleet Corporation no one had the ability to foresee the cost of ship construction. How could anyone make an estimate of costs that would stand anywhere near true on the building of those ships? There was left wide open the trading ship corporation on the one hand, well knowing ship practices and costs, with the man on the other hand fixing the base price, on which they would get a fixed fee, and then if they made any savings on that fixed price, they would get half of them. That was the third form. How it has worked out I do not know. It might be interesting to test these particular cases and see how they did work out.

(4) *Cost plus profit sharing with sliding fees*.—Examples: Contract No. 83, American International Shipbuilding Corporation, dated September 13, 1917, with supplemental contracts for a total of 180 hulls.

That is the great Hog Island case. Judge Payne took the minimum fee and told them if they would accept the minimum and throw everything else out he would settle with them. He said, "The balance of your work is canceled, as to materials on hand in your yard, and work you have done, and we will give you the minimum fee on that." And may it be said for the officials of the American

International Shipbuilding Corporation that they made the concessions which they had in their contract and accepted the settlement which Judge Payne outlined. And he handled that particular matter himself and took out the defects that were written into that contract originally. So in that particular matter it was cleared afterwards by the settlement.

Contract No. 86, with the Submarine Boat Corporation, dated September 14, 1917, for 50 hulls.

The Submarine Boat Corporation case was settled by Judge Payne, and he sold to them all the materials in the yards and the equipment that was contracted for boats and made a settlement which, with the falling prices for ships, was a very generous one for the Shipping Board. In other words, he got them to take and complete the program.

Under this class of contract the agent's fees were not fixed absolutely. For instance, under the supplemental contracts with the American International Shipbuilding Corporation, dated October 23, 1917, for 70 ships, there was a basic price of \$1,650,000. The contract provided for a normal fee of \$82,500 and a minimum fee of \$65,000, but the normal fee was to be reduced by liquidated damages for delayed delivery or increased by premium for early delivery, the increase or decrease being limited to \$17,500 per vessel. Also, any savings below the basic price as revised by the addition of increased wage costs and changes and extras were to be divided into three parts, of which the owner was to have one part, the agent one part, and the third part was to be divided among the shipbuilding employees.

Under this type of contract the agent did not receive any profit on increased wage cost.

(5) *Cost plus fixed fee with profit sharing and loss sharing.*—Examples: Contract No. 170, dated December 24, 1917, with the National Shipbuilding & Dry Dock Co.; contract No. 87, with the Merchants Shipbuilding Corporation.

Under these contracts there was a fixed fee, which was to be increased by one-third of the savings or reduced by one-half of the costs in excess of a basic price, provided, however, that in no event was the reduction for excess cost to bring the fee below a stated minimum.

Under this class of contract the agent did not receive any profit on increased wage cost.

(6) *Actual cost, profit sharing, with full penalty for excess costs.*—Examples: Contract No. 60 WH, dated July 26, 1917, with J. H. Mendel Engineering & Construction Co., under which the Fleet Corporation was to pay actual costs, fixed fee of \$10,000 per hull, one-half savings under \$280,000, but in case cost exceeded \$290,000—plus increased cost of materials, wages, changes, and extras—no fee was to be paid.

Under this class of contract the agent did not receive profit on increased wage cost.

Increased freight payments are interwoven in the cost of materials, and it is impossible to estimate the amount of excess profit on this item—that is, cost plus contracts. In my opinion there was no other method left of contracting to the Government than cost plus. Likewise, it is impossible to estimate the amount of excess profit paid through the abuse in overhead charges, by increased officers' salaries for administrative work. The estimated cost of ships built under the contracts listed as cost plus is about \$949,000,000. The

cost of the ships requisitioned on the ways is about \$520,000,000. To finish the requisitioned boats cost the Government somewhere around \$260,000,000, making a total of cost plus of approximately \$1,209,000,000.

In the emergency in which the nation found itself, there was no other method of contracting left to the Government than cost plus.

Very early in the war, in April, 1917, Mr. Howard Coffin, then on the advisory board of the Council of National Defense, discussed this feature with me, and pointed out, as an example, that the Government was in the market for some 40,000 wagons by competitive bids, and that the bids received on wagons would run between 300,000 and 400,000 from the wagon manufacturers of America which meant that the Government was actually in the market for from 300,000 to 400,000 wagons, in so far as the call on material was concerned, and if competitive bidding was indulged in by all the departments of the Government which were placing contracts, prices on all materials would rapidly mount, due to (a) the false call on the market made by competing individuals in the groups of manufacturers supplying war materials; and then, too (b) that there was not enough men available in Washington, nor was the time available, to place bids on a competitive basis.

I suggested cost plus as a remedy. It was a well known practice obtaining among big manufacturing companies, which have subsidiary companies, and if the simple protective provisions, as pointed out and determined in American business practice, had been adopted and put into the Army contracts, the Navy contracts, the aircraft contracts, and the Shipping Board contracts, untold millions would have been saved to the Government and increasing prices would have been somewhat retarded.

An examination by your committee of the men who placed the original Shipping Board contracts, as to their prior experience and knowledge of cost plus at the time they made the contracts, will show the want of information that existed, and from which much of the chaos and excess cost on the part of the Government occurred. I want it understood that I have no personal criticism of the men who made those contracts, for I do not believe there was any fraud or direct negligence on their part, but the criticism is directed rather at the legal sections of the Army and Navy departments. They had not developed the proper machinery of contracts to protect the Government's interests prior to our entry into the war, when great contracts had to be made.

The CHAIRMAN. You say legal sections of the Army and Navy departments?

Mr. GILLEN. I am wrong in stating that. It was an administrative piece of work that should have been prepared before war and been in readiness for all departments of the Government.

The CHAIRMAN. But how about the Shipping Board?

Mr. GILLEN. When a great crisis occurs like did occur, men left their businesses and went to Washington for a dollar a year. Whoever selected those men picked the best men they could find, and those men conscientiously attacked the problem of putting these great contracts over. It is not a fair criticism of a man—and I can not tell you now who made those contracts—to say that he should have known the underlying principles of cost plus if he had never had experience

in cost plus. It is technical, and only those who have had experience, and who have operated under such contracts, know where the loopholes are. It was the duty, in my judgment, of the Army and Navy to have had prepared for the protection of the Government proper forms of contracts that would permit over night the mobilization of the industries of this country, on the one hand, and methods of contracting for the products of these industries on the other hand. And if that had been done——

The CHAIRMAN (interposing). We have no jurisdiction over the Army and Navy contracts.

Mr. GILLEN. I appreciate that.

The CHAIRMAN. What we want is in reference to Shipping Board contracts.

Mr. GILLEN. I appreciate that.

The CHAIRMAN. You say the legal division of the Army and Navy. What we want to know is, what division of the Shipping Board should have been familiar with these protective provisions in contracts, so that they might have been included in them when drawn.

Mr. GILLEN. The contracting section of the Shipping Board, which undoubtedly then was the general manager, plus legal counsel, who could draw the contracts, because business men, as we all know very well, can not draw contracts, but they can point out the things that should be protected.

The CHAIRMAN. You mean the general manager of the Emergency Fleet Corporation, I assume.

Mr. GILLEN. I imagine he would be the man, who would have charge of it, though I have never looked back to see who made those contracts.

The CHAIRMAN. You may complete your statement.

Mr. GILLEN. Mr. Coffin requested me to draw up the principles of cost-plus and submit them to him, and on May 14, 1917, I did so in a printed pamphlet and mailed out 20,000 copies, sending a copy to each officer in the Army and Navy, all Government officials, and the members of all the War Boards in Washington. Within a week thereafter, cost-plus in some form or other, became the prevailing principle upon which contracts were subsequently made, but again I point out—the simple protective provisions clearly set forth and already adopted by the large manufacturing institutions of this country were not inserted in those contracts in any of the departments of the Government.

An illustration of how proper cost-plus would work out is shown in the case of the American Shipbuilding Corporation of Cleveland, owned by the Rockefeller interests. In other words, I have been informed it is owned principally by John D. Rockefeller and his associates. That was stated to me in Washington by the men who are interested. Upon the request of the owners of that American Shipbuilding Corporation, a resolution was passed by their board of directors to the effect that their corporation would not be permitted to make over 10 per cent profit on war work. On October 1, 1919, when I arrived in Washington, Judge Payne turned over to me that case for settlement. Under cost plus contracts which they had, the American Shipbuilding Corporation were entitled to \$157,000,000. They requested that their contracts be changed to lump sum and they offered to return to the Government approxi-

mately \$7,000,000 for all excess railway charges; \$8,000,000 for excess wage increases paid under the Macy award; \$7,000,000 for amortization of plants; and \$3,000,000 for depreciation—all of which they were entitled to under the contract made by them with the United States Government—a total of \$25,900,000. The difference in the amounts is due to my not having the records before me. It was the most unusual position taken by any contractor with a legal binding contract on the Government.

A new contract for a lump sum, retroactive in its nature, was entered into with them after they had made a deduction of \$25,900,000. It will be noted in this settlement that they did not ask for any profit on wage increases, nor on railway transportation, and in addition to this, they gave up all of the increased wages that they had paid, and all of the increased railway transportation, together with amortization and depreciation.

In my judgment, had proper cost-plus contracts been drafted many of the other large contracts would have been materially cut, and this applied not only to the Shipping Board, but to the other departments of the Government as well. The percentage of saving would have decreased as the contracts decreased in amount.

MITCHELL WAGON Co.,
Racine, Wis., May 14, 1917.

A simple and practical remedy for establishing the base cost and the profits of American producers and supplies of war goods to the Government, with the considerations which control cost and profit. Drawn from actual experience had in furnishing war supplies to the Allies and from actual operating conditions existing in manufacturing and supplying in this country. Under the application of the remedies set forth herein this Nation will save hundreds of millions of dollars annually and at the same time, with justice and fairness to all, help stabilize and keep normal the economic conditions in this country.

This plan is respectfully submitted in the hope that it will draw forth from the executive officers of this Government; from the members of the National Council of Defense; of the advisory board and their subcommittees; of the General Staff of the Army; of the Quartermaster's Department; from the governors and the members of the State councils of defense; our editors, business men, farmers, and working men, such publicity and welcome criticism to the writer to the end that its principles may be strengthened or modified for the benefit of our Government, and that the suggestions and criticisms may avail in presenting to the National Council of Defense and advisory board the best thought of this Nation on this subject to the end that justice may be done to the Nation, to the producer, and supplier, and to the one hundred ten millions of men, women, and children living in domestic life in this Nation.

MARTIN J. GILLEN.

To the National Council of Defense; Advisory Board; Quartermaster's Department of the Army and Navy; and American business men:

The writer fully appreciates the great burden that has been thrown upon the National Council of Defense, its advisory board, and the Quartermaster Department of the Army and Navy within the last 30 days by the sudden declaration of war and the great unpreparedness of this country, and that it will take some months to perfect their organizations to accomplish telling results in supplying the Army, Navy, and our allies; that the actual conditions under which the above bodies are now laboring have forced them to reach out and get supplies where most available with the least loss of time, and that they have not had the opportunity to command uniformity in their price establishment. Thus anything that is said in this communication is not critical. The writer has only the highest commendation for the magnificent and effective work done by the National Council of Defense; the Quartermaster Department of the Army and Navy, and by the advisory board and its committees to date.

CONSIDERATIONS BEARING ON THE ESTABLISHMENT OF PRICES.

The first consideration in establishing the price which the Government should pay for its and the Allies war supplies is a price sufficient in amount that will not impede the most rapid production of goods to meet governmental requirements at a fair

profit to the producer with the thought ever uppermost that the Government and Allies should be treated as the most favored customer of the producer or supplier.

The second consideration is the careful placing of all orders by the Government in each producing or supplying group so as not to upset the economic conditions surrounding (a) each group of war supply producers, (b) their employees, (c) the price of raw material used, and (d) economic saving of all transportation.

As an illustration: The placing of orders for shoes: At the time of the breaking out of the war we were supplying shoes for one hundred ten millions of men, women, and children and a certain amount for export. By the call to arms the country will be compelled to produce for the above, which includes the three million which will eventually be called out, who will possibly use four to five times as many shoes as were used in domestic life by them.

If they use five times the increased national production of shoes will be somewhere about 12 per cent of the normal production, but it will be along the lines of the heavy shoes that are manufactured within the shoe group, to which possibly 75 per cent of the machinery now in use in the country can be adapted, which means that the increase of production, if placed uniformly over the entire shoe group of this country on the above 75 per cent basis, would mean a national increase of about 16 per cent.

This, of course, is not practical in all cases, but in a very large way it can be applied in the shoe group across this country in those large economic belts where the soldiers are being mobilized and where many of them will be held in camps for a very long period.

Take the city of Milwaukee, where. I am informed, a short time ago a war order for 60,000 pairs of shoes had been placed with a moderate sized shoe factory, while there are about 15 other shoe factories in that city that could have taken their production of 4,000 pairs apiece, assuming they have the same production capacity. The increased production to each of the five would not be large; it would not upset the shoe labor market in that city, nor cause a general increase in the price of manufacturing shoes in that market and equally so across the United States. In a word, all shoes which can be made across the United States in the big economic belts should be made there and as close to the leather markets, near the packing houses, and big tanneries, and the increased production will be so small that it will not upset economic conditions surrounding each paid group and much money will be saved. Consideration, of course, must be given to the great producing centers of shoes, such as about Boston, St. Louis, Cincinnati, and like centers, which provide great quantities of shoes for their surrounding economic belts. The increased price caused by the abnormal changes made by placing the orders with a few rather than all members of the group drives up the general cost of shoes for the one hundred ten millions of men, women, and children beyond normal increases.

Another illustration. Take wagons; assume that for the next 12 months the Government will require about 70,000 units. A preliminary order for 8,000 was at hand two weeks ago. There are about 10 big wagon factories besides those of the Southeastern States. The Army specifications have already been standardized to meet the factory tool equipment and the raw material markets of this country. The placing of the wagon orders with two or three, or possibly four, of the big wagon companies would cause those companies to go out into the open market for raw material besides the stocks they have at hand and will compel them to buy in many instances from the yards of the other wagon manufacturers. Prices will shoot up over night. Normally the wagon manufacturers of this country produce 250,000 wagons and nearly every wagon company can build the Army wagon under the standardized specifications.

A large amount of useless transportation on raw stock and on the shipping of the finished product to far removed points and increased prices not only to the Government, but to the farmers who use annually 250,000 wagons will occur, and thus the wagon group would not have its economic conditions materially changed when the orders are spread over the group. The increased production could be absorbed without such marked economic changes. The writer appreciates there will be many instances where this can not be applied, but is suggesting the principles so that they may be applied where possible.

The third consideration is the establishment of a committee on specifications and information, whose duty it is to immediately notify the units in each group with (a) the rules under which inspection of goods is made; the method of cancellation of orders; payments, supply of raw material, etc., and (b) a brief but technical description of the specifications and requirements, immediate and for the year, of the Government in that particular group spread across the country, and have on file in at least eight of the principal quartermasters departments across the country a copy of the specifications and blue prints of the things required by the Government which do not dis-

close any of the secrets of manufacturing which they wish to withhold. During the placing of orders for the first year and a half by the French, English, and Russian Governments in this country, the following conditions caused the Allies to pay very heavy and unnecessary exactions in the way of profits:

First. The failure of the French, British, and Russian Governments to publicly and directly so arrange that the American producers could get and keep in touch in this country with their duly authorized buying commissioners, together with a brief description of their specifications and the amounts required. Because of this failure on their part they were forced to purchase in a very limited market. The policy of the French commission developed finally into buying from only two sources of supplies within a given group of manufacturers or suppliers, which caused them to pay profits from thirty to one hundred per cent. The British Government later corrected this condition in a limited degree, as did the French, by buying through J. P. Morgan & Co., but even thereafter their orders were placed in a very limited field because they were mostly placed as near the eastern coast as possible in order to save transportation charges. The result, however, was a small saving in freight but excessive profits totaling many times the freight bill.

Second. The French, British, and Russian Governments required impractical guaranties on their goods similar to the ones employed by our Government before this war when it was purchasing for 30,000 troops in a limited market which it had created through the arbitrary specifications of the Army and Navy. The early guaranty of the Allies was so rigid and so out of harmony with the customs of guaranties prevailing in this country in the big American market that many high-grade manufacturers did not take any orders and those that did added a good sized percentage to their cost so as not to have a loss.

The remedy for this is to have inspectors who have been trained in each line of goods that is purchased, inspect supplies (a) while they are being manufactured and (b) when finished and before shipped. War use is the hardest use goods can be put to and no manufacturer can reasonably be expected to guarantee them without being protected, for in the ultimate, the Government must pay for the goods it requires, of the kind it specifies working under actual war conditions. The perils to goods in war conditions are so unlike those under peace conditions that this risk should be taken over by the Government—it should be furnished with honest and well-made goods and it should get this through its inspectors before the goods are shipped. By assuming this risk the Government saves millions of dollars, for if it does not accept this risk it must pay the manufacturer for carrying it, and since it is of such a doubtful nature the manufacturer will try to fix a percentage that will fully protect him. Then too under the remedy provided below all opportunity, desire, and incentive to cheat and defraud is removed.

I am informed that on the war supplies furnished by the American manufacturers the French, British, and Russian Governments did not have occasion to insist on collection but in few instances, and thus the American manufacturers received an additional profit to the extent of the percentage for guaranteeing protection that they added to their goods and in general it would work out the same with our own Government. Fraud in manufacturing goods should be sternly punished by imprisonment and heavy confiscatory fines.

Third. The fear of the cessation of hostilities or the change of war needs by the Allies added another contingent liability which each manufacturer charged to the Allies in a percentage on its goods. Our Government should agree to stand all loss to the suppliers and manufacturers upon orders duly given in case of the cessation of war in the change of orders given by the Government under some equitable and businesslike arrangement that can readily be furnished. Unless this is done reasonably and equitably the manufacturer and supplier must add additional charges to protect him from loss in this regard. Again, in the ultimate whatever loss must be taken from these causes must be assumed by the Government.

In open, hard competition among seven competitors on a certain war order for France (in which the writer was personally interested), the above elements caused the American manufacturers who were bidding to so price their goods that the French Government was compelled to pay for a certain order of goods that cost the manufacturer \$112,000 the sum of \$216,000, or a profit of \$104,000, which was almost 100 per cent of the cost price.

All of the above elements of doubtful liability to the manufacturer and supplier can be easily eliminated by our Government with a tremendous saving to it.

The fourth consideration goes to the merits of the varying amounts or percentages of profit to the producers or suppliers from the standpoint of justice to our Government and the economic welfare not only of the men who sell to the Government but to the Nation at large as it is affected.

Under this section each class must be treated differently in the amount of percentage of profit allowed.

First class: (a) Those groups of manufacturers or suppliers who do wholly a domestic business and as a group furnish the needs for the 110,000,000 men, women, and children of this country and take on a percentage of war business in their particular lines or similar lines to which their machinery can be adapted, like shoes, clothing, wagons, woolen, cotton, and other fabric manufacturers, harness making, motor truck and its accessory plants, lumber, machinery, foundries, meats, foodstuffs, etc.

(b) The great groups of producers and suppliers for the domestic needs in arts, sciences, and commerce of natural products coming from the mines and wells, such as metals, minerals, and oils, who take on additional orders for war.

(c) The great groups of producers and suppliers of raw materials, such as leather, lumber, steel, cotton, wool, etc., who supply the domestic needs of the Government and are now called to furnish supplies to manufacturers who accept large war orders for the Government.

Second class: Those manufacturers who are and have been in the exclusive business of manufacturing war supplies.

Third class: The suppliers and producers of natural products of which there is a limited supply and which require investments which will be of little value after the war is over.

Fourth class: Those producers or suppliers who are compelled to build new plants and make new investments to take care of new Army, Navy, or national needs of which there is not an ample supply in this country—a good example is ship building.

The fifth consideration: The American manufacturers and suppliers should give to the Government the same degree of material patriotism that is required of the enlisted and drafted men and women for Army, Navy, and Federal services. The profits granted to them should not permit of the cry "pocketbook patriotism" nor should there be created the opportunity for the so-called "war brides" from unusual profits.

The American business man has been given the opportunity to show his patriotism for the country in as large a manner as he could ask. The banking and investment houses of this country patriotically, for a number of weeks before the war loan was put out, stopped their vast and expensive organizations from placing before the public new offerings, and then turned their entire organizations from one end of this country to the other to aid in handling the \$7,000,000,000 loan without cost to the Government. They fall within the first class under consideration four above, for they will make their profits out of the domestic banking transactions for which their companies and their organizations were builded.

Another illustration is that of the Chicago packers who furnished the preliminary order for shoe leather to the Government at a modified price as to delivery, so as to expedite the early need of Army shoes. They fall within the first class under consideration four above.

Another illustration is that which appeared in the advertisement of the Bethlehem Steel Co. a few months ago, where they made an offer to the Government to furnish supplies at cost-plus, as I now remember, either 5 or 6 per cent profit. They, too, fall somewhat within the first class under the fourth consideration above, but since the war has started it looks as though they have or will move largely into the second class under consideration four above.

Many other illustrations of the truly patriotic business man are at hand. It is the manufacturing and supplying "slacker" that the Government must be protected against.

The sixth consideration: Every American manufacturer and supplier engaged in domestic business, who is so fortunate as to be within the group which receives war orders from the Government, will during the war receive a portion of his factory overhead expenses and a profit much in the nature of governmental insurance or subsidy, while (as has been the case with England, France, and Germany) a large percentage of the balance of the manufacturers and suppliers in this country will be forced to limit their activities, and some of them will be absolutely proscribed so as not to use labor and material which is necessary and which must be diverted to war purposes.

One can readily understand how our Government must quickly and sternly divert, for instance, steel products and their accessories from domestic uses to war purposes for making munitions, machinery and equipment for railroads, for farm implement purposes, and the like at whatever economic sacrifice to the other less fortunate groups. Thus the burden falls on the latter class to carry their business through war times without governmental aid and under heavy restriction. In England there is to-day a list of over 50 occupations, trades, businesses, and groups in which men from 18 to 56 years are not allowed to be employed. In that class, too, their wants for raw materials and supplies are made secondary to the needs of the Government, which in

itself is a very hard and distressing burden. It must also be kept in mind that the agricultural classes, the war suppliers, and labor generally will not be cut in price or injured in their groups and occupations.

This being so, they should not unduly profit on the supplies they furnish to our Government and the Allies to whom we are furnishing the sinews of war, while their less fortunate fellow manufacturers and suppliers are being unduly limited by conditions over which neither they nor the Government have control. It makes no difference whether the burdens of proscription and limitation come by fiat of law or indirectly by the orders of the Government placed in its efforts to take care of its war needs of its citizens. The great moral fact of justice remains that this must not be a war of profit, and prices must be curbed and kept as normal as is possible during the economic changes that the country is now passing through.

REMEDY OR APPLICATION OF PRINCIPLES TO THE ABOVE CONSIDERATIONS IN ORDER TO ESTABLISH THE PRICE OUR GOVERNMENT SHOULD PAY FOR ITS WAR MATERIALS AND THE PROFIT TO BE ALLOWED TO THE MEMBERS OF THE CLASSES SET FORTH IN CONSIDERATION FOUR.

Remedy 1.—Under the first class set forth in the fourth consideration on page 7, the Government should pay the manufacturer's or supplier's cost plus 5 per cent profit. Each of the manufacturers and suppliers of the three divisions of that class should furnish to the Government a statement of his costs as taken from his cost records under the oath of the president, treasurer, and the man in charge of his cost department. In that statement there should appear (a) the actual cost of the raw material going into the manufactured article with the freight, handling and carrying charges set forth which constitutes the cost of his raw material. (b) The estimated direct labor to be expended on the order. (c) The estimated overhead containing such items as power, insurance, taxes, depreciation, repairs, general factory expense, pattern expense, and such labor overhead expenses as have been customary according to the records of the books and files of the different groups of manufacturers and suppliers.

These items will constitute the cost basis upon which the percentage of profit is to be given. As the termination of the contract with the Government the supplier or manufacturer will furnish under oath of its president, treasurer, and cost man a statement showing the actual cost of labor, material, and overhead itemized by the same method and comparable with the submitted preliminary estimate. If the cost has been less the Government shall have an advantage by way of a rebate—if it has been more the Government shall pay the additional charge to the manufacturer or supplier. The contract shall be made with the supplier on the basis of his preliminary estimated cost, and his payment shall be made on that basis subject to the final adjustment. Under any plan that may be determined the Government will, as it does now, pay all the above items constituting the manufacturer's costs.

The manufacturers and suppliers in this country operate their business on that basis and know the estimated cost of their business operations; in a word, all of the above items constituting cost are susceptible of being clearly defined by each supplier.

The banks of this country do not loan money to manufacturers and suppliers unless they have proper cost systems by which the annual operations of their business can be determined.

Edward N. Hurley, chairman of the Federal Trade Commission, on July 1, 1916, issued for the benefit of small companies a pamphlet entitled "Fundamentals of a Cost System for Manufacturers." It followed the system which has for all practical purposes been in operation for years everywhere in this country, so there can be no excuse for any supplier or manufacturer failing to provide the Government with actual costs. Then, too, our Government collects every dollar of its Federal income tax from manufacturers and suppliers on the above basis. For at the end of each fiscal year under the law the Government accepts the sworn statement of the officers of each corporation and firm of this country as to its annual business operations so as to establish the amount of profit upon which the income tax is levied. Although the Federal income tax will be greatly increased this year, the same method of collection will continue.

The Government has in its employ expert accountants whose duty it is to inspect the book records of the various firms and corporations of the United States to see that they are not avoiding the Federal income tax under their method of bookkeeping. Then too the corporations and suppliers of this country are mostly stock corporations and they are compelled to make a proper showing to their stockholders, and this in itself is a corrective at all times to keep their cost accounting and other accounting in a sound condition—in a word, the Government will be absolutely protected in entering into such contracts.

The writer in the last three years has operated one contract under this method where millions of dollars worth of business has been done without any difficulty and in a far more satisfactory way than on the straight price contract basis.

Because of the billions of dollars that will be expended by the Government to manufacturers and suppliers, it is necessary to have absolute protection. Therefore a strong committee of practical men with large viewpoint and special experience in contract work should be appointed by the Advisory Board. On that committee place such a man as Maj. C. C. Jamieson, a graduate of West Point; many years connected with the Rock Island Arsenal, and later for many years with John Deere & Co., of Moline, Ill., and for the last two years an expert for some of the largest corporations of this country in that particular work, and now recalled to the colors. Select one or two big men from the large certified accounting houses of the class of Arthur Young & Co.; Price, Waterhouse & Co.; Haskins & Sells, or like companies, and employ for the aid of that committee parts of the staff of those big public certified accounting houses of this country whose duty it shall be to check from time to time the records of the manufacturers and suppliers of war material. The firm of Arthur Young & Co. was employed by the British Government to maintain a large staff in the firm of J. P. Morgan & Co., checking their war orders and also in charge of the Curtis aeroplane contracts for the English Government. Men of this class have been engaged in this country for years on accounting work and especially on checking up costs, and with this aid to the Government there can be brought a certainty which will protect against any scandal in the buying of war supplies in this country.

Under this class the Government so far as it is able buys (a) its direct supplies (such as foodstuffs for the Army) and (b) all lumber, leather, cotton goods, rubber, iron, steel, and things of like nature, and delivers them to the manufacturers of war supplies so that the "pocketbook patriots" among the raw material suppliers—like the lumber brokers have demonstrated themselves to be within the last 20 days—can not force high prices for the raw material that goes into the manufactured articles, at a great profit to them, while the manufacturers and suppliers are patriotically building for the Government at reasonable prices. For example: The day after the wagon manufacturers met at Jeffersonville, Ind., a few weeks ago to bid on an order of 8,000 Army wagons the price of poplar box boards went up \$10 a thousand, while on the day following the adjournment of the wagon group in Chicago on last Wednesday, May 9, after the lumber brokers had received notification of a Government order for about 60,000 units, the major portion of which was lumber, they shot up the prices for lumber on the particular things needed from \$60 to \$90 a thousand feet. There was no reason for this, for the base costs in the lumber on May 10 was the same as on May 9. Thus the Government should buy the large basic raw materials necessary for its supplies from which the manufacturers can draw.

The second class under consideration four, namely, the manufacturers who are and have been in the exclusive business of manufacturing war supplies and whose entire investment is in that business should be treated with greater consideration than those in the first class, for it is the means by which their investment is sustained. The members of that group should be compelled likewise to present their sworn statement of costs and then should be permitted to receive from 8 to 10 per cent profit on their sales, which should be ample in war times. For this percentage on their sales, which have or will greatly increase in volume, will give a very substantial profit on the capital invested. Yet under this class reasonableness should be exercised so that in every case a definite and fair profit will occur to the capital invested. Under this class would come the shipyards already established and in operation in this country.

The third class, to wit, the suppliers and producers of natural products such as metals, minerals, and objects of like nature, of which there is a very limited source of supply in this country and which requires investments which will be of little value after the war, and the fourth class above, to wit, those producers or suppliers who are compelled to build new plants and make new investments to take care of the new Army, Navy, or national needs, of which there is not an ample supply in this country, such as additional shipbuilding, present temporary difficulties.

The French and Russian Governments met those difficulties in this country by advancing a percentage of cost to the manufacturers and suppliers to build additional buildings and equipment; then allowed them to put a sufficient profit on the goods to take care of the entire investment in addition to the profit that was allowed, so that the manufacturers or suppliers could scrap the entire buildings and equipment at the termination of the war orders with total loss to the French or Russian Government and to such a profit as the manufacturer or supplier as he could get out of the buildings and equipment. Because of the inability of those Governments to properly protect themselves in cases like this heavy exactions were made from them.

The following suggestions are offered in this regard:

1. The Government may furnish the additional money necessary for the immediate added requirements of production, and after the war maintain its proprietary interest to the extent of its investment or sell its interest on a reasonable basis, less depreciation, to the owners of properties, at a price fixed in the contract at the time that the money is invested by the Government, with the right in the Government to offer it at public sale at a higher price at the conclusion of the war, so that in arranging for the depreciation that will occur if the owner of the property who is benefited is not injured to the extent that he thinks he is going to be injured, the Government has a right to sell on the public market for its own protection.

The Government should guarantee the capital invested in this class, but should not be mulched or penalized.

2. The Government might take over the entire plant and equipment, where there is a shortage, furnish the money for the additional buildings and equipment, and after the war own and maintain those industries even if they have to keep them closed or permit after the war the renting of those buildings and equipment to private manufacturers on public bid, so there may not be a loss to the Government while holding them for future purposes.

3. In event the Government furnishes the money to a manufacturer or supplier for additional equipment the Government should receive $3\frac{1}{2}$ per cent interest on its money, which should be deducted from the profits of the manufacturer, who will operate under the cost plus profit, as set forth in classes one and two in consideration four.

4. In order to induce capital to invest on behalf of the Nation under classes three and four and take the risk of the future, the Government should allow a rate of profit that will net from 12 to 15 per cent on the additional money invested.

5. Where the Government and Allies' need deplete the natural supply of natural products a fair value should be added to cost before profit is taken. In a word, the depletion value which goes to make the value of the raw material.

Frequently in the last 30 days bankers of note and business men have suggested that in order to maintain prosperity in this country large profits should be allowed to munition makers (1) in order that the Government may receive large taxes from them and (2) in order to maintain "business as usual." In this regard it might be wise to point out that the very purpose of increasing our Federal taxes is to get money to pay the Nation's war budget and it is quite unwise to increase the Nation's obligations further by way of excessive profits to pay its debts, for by that means you are increasing its debts to a greater extent than you are collecting it. Under the second suggestion of "business as usual" the more you increase the profits of the war suppliers and manufacturers the more you upset the normal economic conditions of the country.

In the base cost of all the Government supplies lies the great dominant item of labor cost, which is higher to-day than it has ever been, without its purchasing power having increased proportionately to the benefit of the laboring and consuming classes, a situation which is due to the abnormal conditions that have been created through the middle men and brokers of this country, such as speculators in food, lumber, leather, and middle men handling foodstuffs. Increased wages to the laboring men increases terrifically the cost of goods to our Government as well as to our Allies and increases rapidly our national debt without benefiting anyone.

Remedy 2.—The business policy of the big commercial life of this Nation has turned from peaceful pursuits to a war basis, and the large economic changes due to this fact are now appearing. In order to stabilize conditions surrounding business, agriculture, and labor so that normal conditions may obtain as far as possible pass the present law in Congress giving absolute power to the Federal Government to establish a commission to control all industries in the United States, all prices, and all food and fuel. While the economic law of supply and demand in normal times controls prices, that great law has not caused the terrific increase in the cost of living which has and will become a crushing burden to the men, women, and children of this country under present conditions.

Unless power is granted as above we might just as well pay \$10 a bushel for potatoes and \$20 a barrel for flour. Only a certain definite number of bushels of potatoes, wheat, and other food products was raised last year. The base cost of raising and marketing these products was determined before the war was declared and the excess additions are due entirely to manipulation.

Thus to-day the patriotic American consumer who is devoting his time and energy preparing for war has no protection for himself, his wife, and his children against the "pocketbook patriots," designing speculators, and crafty brokers who, unrestrained in this country, are upsetting the normal conditions of domestic life for our men, women, and children to the ultimate injury of our national cause.

Respectfully submitted.

MARTIN J. GILLEN.

The point I desire to make in reference to this settlement of \$157,000,000, in addition to what has been stated, is that at the time contracts were executed the Government was not in position to determine, on that particular contract, what was 10 per cent profit, for that is what it intended to pay. Under its form of contract, the profits were such that they were able practically to give back to the Government \$25,900,000.

That might have been saved in other big contracts—and there are other contracts that, I imagine, are pretty nearly as large as this, of certain forms—what the Government might have saved in these cases is a question now of estimate, because the contractual relations were set under contracts that did not protect the Government, if it intended to pay 10 per cent profit, or if that was the basis of profit which they considered just compensation for the contracts.

The CHAIRMAN. Do you know whether or not contracts with the American Shipbuilding Corporation did contain a provision for 10 per cent profit, plus 10 per cent overhead, plus 5 per cent, was their profit over all?

Mr. GILLEN. I do not know, because when the matter came up for settlement before me estimates were made on what they were entitled to, and checked up by the comptroller's office, and they pointed out that they had this provision of the Macy award—the Macy award being excess labor costs that they were to be reimbursed for—and excess railway transportation, and amortization, which they figured out, and the depreciation, and that they were making a tender to us of \$25,900,000. And, so far as I was concerned, I was not interested in whether the contract worked out, beyond cutting out that which they were willing to give back to us. I have not seen the contracts since they passed under my hands, on October 1, 2, and 3, 1919—and as you may well imagine, much water has gone over the dam since then. But the contract may easily be made available to you.

The CHAIRMAN. Could you tell how much they were entitled to under the contract without looking at it?

Mr. GILLEN. I could not.

The CHAIRMAN. How did you know?

Mr. GILLEN. Oh, do you mean how much they were entitled to?

The CHAIRMAN. Yes.

Mr. GILLEN. Oh, they had all their estimate as to what they were entitled to, and were checked back by the comptroller's office. If we have a large matter we are working on, we sent it over, in the first instance, to the comptroller's office, and take the figures presented to us by them; and then we have an analysis made of that contract. They had been down there working on that for about six weeks before I came there. They had been working back and forth, and when I came it was about ready, practically ready, for closing.

The CHAIRMAN. And the sum that they tendered for the excess on the Macy award was the percentage that they were entitled to on that, was it?

Mr. GILLEN. Oh, no. What they gave back was the actual additional money that they paid out. For instance, when wages went up from 50 cents an hour to \$1 an hour for a man, or higher than that in some cases, under the Macy award, they would be entitled to receive this additional wage of 50 or 75 cents an hour, whatever the increase

was. And this increase that they gave back was the increase in wages, representing actual cash that they paid out of their pockets.

The CHAIRMAN. Didn't the Government pay that?

Mr. GILLEN. The Government did, but they were giving us back a credit. The Government advanced the money, but when they came to a final settlement they gave us back a credit, for instance, \$25,900,000. They handed us back a credit.

The CHAIRMAN. So they absorbed the increase under the Macy award?

Mr. GILLEN. Yes, sir.

Mr. STEELE. Does that apply to amortization as well, which they returned?

Mr. GILLEN. Yes, sir. You see, they had a small plant, and, as their president, Mr. Farr, said, "You know we had a boy when the war started, but we have a big giant now, and here is what the amortization runs to." They worked out all their figures, and he said: "We have to work these plants back now."

Mr. STEELE. Was the complete amortization \$30,000,000?

Mr. GILLEN. No, sir.

Mr. STEELE. They returned \$3,000,000 I understand you to say.

Mr. GILLEN. They returned \$3,000,000 as depreciation on their equipment. You see a part of the cost of running a plant, if there is no amortization in there, is the natural depreciation, generally 2 per cent per annum on brick buildings and more on wooden buildings, and on machinery it runs very high, sometimes as high as 25 per cent per year. They are entitled to regular depreciation, which has to be figured out, namely, the depreciation they kept on their books prior to the war, and that item ran to about \$3,000,000.

Mr. KELLEY. The purpose of the Government, in all these various contracts, was to permit a profit of 10 per cent. That was the fundamental purpose of both parties all the way through—

Mr. GILLEN (interposing). No.

Mr. KELLEY. Not in this case, but generally speaking.

Mr. GILLEN. No. That is what I point out to you. I point out to you that it was agreeable that they should make 10 per cent, but they have a number of contracts where they can make more or less profit. I analyzed six of them.

Mr. KELLEY. Under the practices of the contract it worked out so that they can make more, but was it the real idea in making those contracts that that is what the contract should be?

Mr. GILLEN. The idea was that they should get 10 per cent, and—

Mr. KELLEY (interposing). That is it.

Mr. GILLEN. Wait a minute. Ten per cent on what? These men made honorable contracts. They were not doing something fraudulent, not trying to put something over on the Government. I question whether very many of the shipbuilders knew what cost plus was. I think there was just as much want of information on their part and on the part of the general contracting public with the Government. They expected to make the 10 per cent. That is what they were contracting for for their service. And yet I believe a lot of them did not know that it was going to work out so well for them.

Mr. KELLEY. Well, now, this particular concern you speak of was able to make its 10 per cent that it expected to make?

Mr. GILLEN. Yes, sir; and which they were held to by resolution of their board of directors.

Mr. KELLEY. And at the same time returned, out of what they might have made, \$25,000,000 to the Government.

Mr. GILLEN. They returned \$25,900,000. It is the only case I have known of at Washington, either within the Shipping Board or outside of the Shipping Board.

Mr. KELLEY. What you are saying is this, if I get it straight. That had the contracts been properly drawn, that \$25,900,000 never would have been paid to this concern in the first place?

Mr. GILLEN. The most of it would not have been paid. They are taking a big risk of amortization, which is either a \$7,000,000 or \$8,000,000 item. But as to the balance of it, it would not have been paid, because what the Government intended to do and what the American people were set on doing was to stop profiteering in the United States and lay down the proposition that 10 per cent should be paid for service. It was intended that 10 per cent should be paid for the service. And they did not intend to have that service loaded, either by the method as was done or by another method on the contract. That is, by subsidiary companies. There was no check on them. I am informed, although I have never had occasion to look it up, that many of these corporations organized subsidiary companies——

Mr. KELLEY (interposing). Well, then——

Mr. GILLEN (continuing). Wait a moment. Pardon me. My information is that many of these corporations organized subsidiary companies, and that the work done by subsidiary companies was charged in the cost, and the subsidiary company got 10 per cent and then the Government paid 10 per cent under cost-plus for the work that was done by the subsidiary company, the cost of the supplies and work are a part of the things to go into the contract.

Mr. KELLEY. I want to be clear in my own mind, of course, and we are going along pretty fast here, and this is very important.

Mr. GILLEN. It is a very difficult matter that I am talking to you about, and I can easily understand how it is rather difficult to grasp it, because of the size of the figures and the principles involved, and that is why I wrote it out, so that it will hold as to criticism.

Mr. KELLEY. Had the principles been incorporated in these contracts which you set forth in that pamphlet on the 14th of May, 1917, a large part of this \$25,000,000 which was returned to the Government because of the resolution of the board of directors of that concern would never have been paid to that company in the first place?

Mr. GILLEN. Correct; it never would have been paid.

Mr. KELLEY. I would like to know just what there is in that pamphlet that should have been included in the contract.

Mr. GILLEN. You have it in the record now.

Mr. KELLEY. You can give it to us in a few words.

Mr. GILLEN. I have pointed out a simple illustration, and what was needed was to have a lawyer draw the terms. First, there is overhead, and in that comes as one of the items officers' salaries. If the president of the corporation gets \$5,000 a year in the corporation, and has gotten it over a period of years, the overhead should be protected to the extent that he can get no increase, so far as the

Government is concerned. If they want to give him an increase on \$5,000, all right, but let them take it out of their pockets. If they want to give bonuses, let them give the bonuses themselves, because the boys going across the sea were not having their wages raised, and there was enough profit to stimulate them to their best effort, and if not, let plants be commandeered. My idea is that when we go to war producing property of the nation should be headed by the experienced men who own the property and who know the property, but they should not be permitted to take anything except normal profit, and contracts should be arranged and so worked out as that will be the result.

Mr. KELLEY. The contracts as drawn permitted a profit on excess overhead, excess labor, excess freight, and excess cost of material?

Mr. GILLEN. Yes, sir; and the right on the part of the parent corporation to create subsidiary companies for outside work, on which they get 10 per cent on the original contract and then would get their own 10 per cent. It allowed officers to become interested in these corporations.

Mr. KELLEY. And that profit was permitted under these contracts to be collected, or stood these excess costs in most cases? Excess labor was charged into the contract, was it not?

Mr. GILLEN. Excess labor, excess material, transportation, amortization, and cancellation charges are natural charges which the Government should absorb.

Mr. KELLEY. Exactly so.

Mr. GILLEN. But it should not absorb a 10 per cent profit on these increases.

Mr. KELLEY. And if the contract had been properly drawn it would not have done so?

Mr. GILLEN. You are correct.

Mr. KELLEY. And if it had been drawn in harmony with the pamphlet it would not have been done?

Mr. GILLEN. You are correct. In that regard, the plan of accounting is discussed therein, and it is pointed out that if they had standardized the accounts in the different operating contractor's properties the Government then could have audited out its accounts, just like any big parent corporation does with agencies all over the United States at the home offices, and not endeavor overnight to swing into Washington voluminous records and get a great big mass of unrelated stuff in Washington.

In other words, use the principle that the Treasury Department uses in collecting \$5,600,000,000 of Federal taxes for 1919, as it is now doing. It is pointed out therein that it can be done. Do you know of any reason why it should be necessary for the Treasury Department to establish in Washington a complete record of all the transactions in my business at Racine, Wis., if I am a tire manufacturer, in order to show the proper collection of taxes? Well, the Treasury Department collected in this last year a little over \$5,000,000,000, and it did it upon sworn statements.

I arranged the procedure so that the accounting would have been simplified had they followed that plan of accounting which the Railway Administration adopted when Mr. McAdoo took it over. He did not endeavor to bring all the railroad accounts down to Washington in all their details. He reached out overnight and took

possession of the auditors and the accounting departments and the treasurers of these great railroads, and he said to them, "Continue with your work. You are now under our supervision; you are now the treasurers and comptrollers of the United States Government." And there was not any reason in the world why the Shipping Board or the Army or the Navy could not have commandeered the treasurer and the comptroller or the accounting officer of these corporations and put them under oath to conduct the Government's business. Ninety per cent of all this mess in the Shipping Board to-day would have been avoided.

And that could have been done just as well with the operating companies. They could have reached into the international mercantile marine offices, taken the treasurer of that corporation, and taken the accounting officer and taken its cash in the banks, as Mr. McAdoo did in the Railroad Administration, and they would have been our officers and under our supervision. It is pointed out in that pamphlet that that could have been done.

You members of the committee may think I have gone to some length to produce this information. I have done it for one purpose, gentlemen. I issued the War Industries Board plan in August, 1915, and sent it out, and had it come back to me after submitting it. I put out the cost-plus plan, May 14, 1917, for my Government. I put three years down at Washington, part of it in the War Industries Board and part of it in the Shipping Board, and I do hope that out of the experience the Nation has had we will get some legislation that will be corrective, that we will get some kind of organization shortly that will provide a plan for the protection of this Government in the event we have to go to war again.

In other words, this statement that I have made in rather a large way is intended so that your committee can have it and you use it in a constructive way.

I have no personal criticism of any man that I have met at Washington on the Shipping Board or the Emergency Fleet Corporation. I never found a more loyal or hard working lot of men than the men that are down there. But the problems—the American people do not understand them, I do not believe Congress understand them, and I am sorry to say I do not believe our President understands them. There are terrific problems and they have got to be solved, and they will only be solved by taking these troubles in a large way, cutting them out, and then putting big steel lines down through the legislation that will correct things in the future.

Mr. KELLEY. The fact is, Mr. Gillen, that the Shipping Board and the other departments of the Government letting contracts never did fully comprehend your plan of cost-plus, did they?

Mr. GILLEN. If you will eliminate "my" plan and ask me the question as to whether they ever comprehended the proper handling of cost-plus as it is developed among some of our largest business institutions, I will say to you that they did not comprehend it.

Mr. KELLEY. And even the last contracts which they awarded, after having had two years' experience, still do not protect them?

Mr. GILLEN. There were not many contracts made two years after we went into the war. Most of our contractual obligations were made quickly, in the early part of the war.

Mr. KELLEY. And these six different forms of contract originated within a short time of each other?

Mr. GILLEN. Yes—in other words, there was chaos in their minds;

Mr. KELLEY. They found that the first kind of contract did not protect the Government, and so——

Mr. GILLEN. No; I do not think it arose that way. Different big contracting firms have brains. The American business man is the greatest producer in the world because he has brains and he knows his business, and there came down to Washington these men who knew their business and who were protecting the investments of their stockholders. And as they would take up the different contracts they were convinced, in my judgment, and honestly convinced, the contracting parties there, that these different forms of contract should be used. I do not think it grew out of the fact that the managing director of the Shipping Board in charge of contracts made the changes later, because you will note that they are all within a short time. In other words, it was the contractors coming to the Government and pointing out, "This is a good contract for you." That is the way it was done, in my judgment.

Mr. KELLEY. Do you know whether or not some of the very largest ones stated to the Government that they would not accept business except under a certain form of contract?

Mr. GILLEN. That might be. There are two parties to a contract, always. There would not be anything wrong in that. I have heard men say frequently that they would not take settlements, and I have always taken the position that they were not mean because they would not accept the settlements that Judge Payne gave them. If I were a contracting party I might be fearful that the contract you wanted to give me was not a proper contract, and I might refuse, because the law says one shall receive just compensation. The right was in the Shipping Board to commandeer my property if I would not make a contract, and if the Government did commandeer my property I would then be entitled to just compensation. It is no crime for any man to go to Washington and fight for his legal rights, but we always try to see on our side of the table that we have that resistance and knowledge of a subject so that we can protect the Government's rights.

Mr. KELLEY. Mr. Gillen, have you worked out any calculation to show approximately what this 10 per cent beyond what the Government intended to pay actually amounted to in many cases?

Mr. GILLEN. No; that would be a terrific job. I would have to have the force of the accounting department of the Shipping Board for quite a long period to make any figures that would be definite. I do know that if I pay you 10 per cent on the increased cost of material, if I pay you 10 per cent on the increased cost of transportation, if I pay you 10 per cent on the increased cost of wages, if I allow you to charge in items of overhead, I know that out of that comes an item that I could have saved. What it is no one will ever know, and in my judgment it would be very unwise the time of the Shipping Board or its accounting department with its big problems to try and estimate what that is. That is water that has gone over the dam.

Mr. KELLEY. There has been a great deal of discussion about this cost-plus system, Mr. Gillen, in Congress and everywhere else, and it

is due to the fact, is it not, that these protective features which might easily have been incorporated were not included in the contracts?

Mr. GILLEN. That is it. I wish that when Congress was investigating that they had called on me, but they did not. I was then in the service of the Government, and I watched what was being said, and I know that very few of the men that were called had ever had any experience with cost plus, except the experience they got during the war, and that was not an unsatisfactory experience. Where cost plus has operated as it did in our case at Racine—we had Arthur Young on it as the arbiter one year; we had Haskins & Sells on it two years, and we worked out all of the troubles, and we also had the experience of John Deer & Co. over many years.

Mr. KELLEY. Now, you have called the attention of everybody to this system in the first place—if I might make the remark—it seems rather odd that you were not called in consultation in the drafting of the original contracts which carried this system into effect.

Mr. GILLEN. In answer to that I will say to you that human nature has some funny quirks. One peculiar idea of human nature is that those who hold power and wear the crowns in the Government service, desire to take all the credit there is in any matter that is presented, and when this easy method was pointed out they reached out and seized this sharp tool and started to play with it.

Mr. Coffin did not have control of the Army; Mr. Baker had control of it. Mr. Daniels had control of the Navy, and the contracts. I do not know whether Mr. Hurley or Mr. Goethals was in the Shipping Board. Mr. Coffin was on the Aircraft Board. Now we could have asked those men to call some one down there, but they had their own legal divisions, and you know what a legal division in the Government service is; you know no one can give them any information; you know that, don't you, after your experience in Congress?

Mr. KELLEY. Yes, I know that.

Mr. GILLEN. That is my experience.

Mr. KELLEY. I want to ask one or two questions about this Army account. You made a suggestion, I think, that the account might as well be canceled and you come to Congress for the deficit which it created. That would be the way to handle it, would it not?

Mr. GILLEN. That would have been the way to handle it.

Mr. KELLEY. That is the way to handle it now, is it not?

Mr. GILLEN. No; because I think the accounting is pretty well along. It is down to where they will either accept or deny very shortly. I think the accounting is so far ahead that the way to handle it at the present time is to have the Shipping Board request the Secretary of War to pass finally on these items and say yes or no. If he says yes, then take what he gives us, or accept his no, and have no row about it. Then, when we come up to your Appropriation Committee in Congress, they will know what we are going to get out of the Army and they will make provisions accordingly. And I think that between all the other departments of the Government the same thing should be done.

In other words, if there are claims existing to-day between the Navy and the Army, between the Navy and the Shipping Board, between the Army and the Shipping Board, or between the Food Administration and the Army, the head officers should be compelled to say yes or no on these bills and then forget it. For Uncle Sam is

under the load of hay, and there is the delay involved in rowing back and forth and the expense of keeping large forces of men in two Government departments working on these claims.

Mr. KELLEY. That is what impelled me to say it had better be cut off and Congress appropriate the money; because where would the Army get the money to pay this claim? Have they any such amount of money left?

Mr. GILLEN. I do not know the condition of their appropriation.

Mr. KELLEY. Congress, you will remember, required that the Army turn back into the Treasury all the funds which the Committee on Appropriations thought were not obligated at the end of last year.

Mr. GILLEN. Yes; but you know how that is handled. Nobody checks that up. The Shipping Board claims \$150,000,000, so they will hold that \$150,000,000 aside. That is the way they do down there.

Mr. KELLEY. You called Mr. Good's attention to the fact that this \$200,000,000, or whatever it was, a large sum, was due from the Army?

Mr. GILLEN. Oh, yes; I pointed that out.

Mr. KELLEY. So that it would be allowed either in one place or the other?

Mr. GILLEN. Oh, yes, I pointed that out, too. I took the position with Mr. Good that the time had arrived with the Shipping Board, where we should not be permitted to ask for any more money, but we should be compelled to go out and collect our assets, what was owing to us all along the line, and that it looked to me as if there were enough assets outstanding to get through. That was Judge Payne's policy. Judge Payne did not want to make it too easy for his organization to draw checks.

What was in our minds was that Mr. Tweedale, as treasurer, should go out and get the collections in. We felt that until that was done the department could not begin to function as a business organization. We felt that if we had an appropriation of \$150,000,000 given to us, which it looked as if we would need, it would be very unwise to put that to the credit of our treasurer and accounting department, because it is awfully easy to draw against Government appropriations, from what I have seen down there.

Mr. KELLEY. There is just a word I might ask as to the policy. I remember the legislation which went through requiring that the charter fees for your ships should not be paid by the Navy. I think that is true of the Army also.

Mr. GILLEN. Both of them.

Mr. KELLEY. Is there, in your judgment, any objection to that policy?

Mr. GILLEN. Not at all. The war is over and it is just a question of accounting for it.

Mr. KELLEY. But when one department of the Government deals with another, should they deal at arm's length just like strangers and keep the accounts perfectly straight?

Mr. GILLEN. I think in times of peace that should be done. In times of war I think that the disbursing officer having once made the disbursement as a cash disbursement before and in behalf of another department, the disbursing department should make its charge against its appropriation for that purpose.

Mr. KELLEY. Otherwise you never would know what any particular department of the Government cost.

Mr. GILLEN. You would keep your record on that and charge it to them. But there are two sides to that. What has occurred is the other department said "No, you should not have paid that bill for us; we are not liable for that." The department of the Government that created the liability should in every case settle that liability and clean it off the boards and not get it mixed around through a number of departments. If that is done, that will help cut down the force employed in different accounting departments of the Government to a great extent.

Mr. KELLEY. That is all.

Mr. STEELE. Mr. Gillen, you have referred to certain accountants who were employed by the Shipping Board at the beginning of their operations—Haskins & Sells?

Mr. GILLEN. I said they were?

Mr. STEELE. I understood you to say that.

Mr. GILLEN. No; I said that was the way they should have done. I told them in that pamphlet to get Arthur Young, Price, Waterhouse & Co., and one other company, the three or four biggest certified accountants in America, get those men down to Washington, and have those men set up a system of accounting, and you will then be able to get cost-plus into the Government. In other words, as they called shipbuilders, and as they called different big men to come down on the War Industries Board and the Fuel Administration and the Food Administration and the War Finance Board, so I pointed out to them at an early date, "Get down there the eye doctors for this eye job—accounting experts."

Mr. STEELE. I misunderstood you. That was a suggestion on your part and not a reference to an actual fact?

Mr. GILLEN. They did not do it.

Mr. STEELE. Gov. Kelley has referred to the general criticism of the cost-plus system. Outside of what you have enumerated, is there any real objection to it, or could the Government have adopted any other system at the time?

Mr. GILLEN. My judgment is it could not, in the main, for the great war work that was to be done. That was the only contract system available, and if the Nation ever goes to war again it will be the only contract system the Government will adopt, whatever the criticism, and the criticism is due to the fact that men who do not understand cost-plus are criticizing it.

Mr. STEELE. Can you tell us, Mr. Gillen, what proportion of the cost-plus contracts were awarded under the No. 1 contract that you referred to?

Mr. GILLEN. I have no knowledge of it.

Mr. STEELE. Can you tell approximately what it was?

Mr. GILLEN. I could not.

Mr. STEELE. The No. 1 form of contract was the one that was chiefly objectionable as I understand you?

Mr. GILLEN. Every one of those six contracts in some way or another is tied into cost plus. Every one of them. The first is the very bad one, but all of them have the element of cost plus in them. And you will find in pretty nearly every one of those contracts where the base cost is paid by the Government, there is no regulation

of the overhead, and that the Government allowed them to go ahead and run their overhead as they saw fit. And in every one of those contracts they allowed them if they saw fit to do it, create subsidiary companies in which their officers were interested, or in which the corporation itself was interested, and upon which an additional profit was made.

Mr. STEELE. I understand there is an objection to all of the six forms in that respect, but the objection is one of degree as to each class, is it not?

Mr. GILLEN. That is all. What I am pointing out is this, that there should have been one big general principle laid down, properly protected by law, as to the payment for the service rendered by the corporation or its plant, its equipment, and its organization, and the further provision that in case of cessation of hostilities the Government would stand every dollar of damages on the cancellation. And I have not much criticism of amortization or cancellation charges.

Mr. STEELE. Which form of contract was used in the Cleveland case which you have just referred to?

Mr. GILLEN. I can not tell you.

Mr. STEELE. In the settlement that was made under these different forms of contract, were the accounts audited?

Mr. GILLEN. In every case, in every settlement, there has been an audit made of the records as far as the audit could be made, and then an effort to harmonize the records at Washington and in the district belonging to the Government with that audit.

Mr. STEELE. Did that include an audit of the books of the contractor also?

Mr. GILLEN. Oh, yes; and the vouchers.

Mr. STEELE. That was gone into in that respect?

Mr. GILLEN. Yes; but when you do not have a standard form of accounting, and when you do not have control of the treasure and the comptroller of the contracting firm, like the Government had in the case of the Railroad Administration, and when you do not have sworn statements of those officers, it is almost impossible for you to go in there and check those records out and tell what has occurred. Because, as in this case, with six of those different form contracts, you had to have each of those form contracts analyzed by the legal department of the construction division, each one of them. You had to then educate the auditors of the Emergency Fleet, who were out on the job around the different districts, to understand the principles governing each one of these six-form contracts, and you had chaos and confusion.

When Judge Payne came there we set up a board—I can not say whether it was in existence before he came there, but a board was set up, and I think it is in operation even at the present day, trying to refine these six different form contracts and apply the proper interpretations to the different contracts. The chaos created by the using of six forms of contract has in itself created untold trouble to the accounting department of the Shipping Board, outside of the wretched condition of the accounting department itself, because of what they tried to do.

Mr. STEELE. Now, Mr. Gillen, you have referred to something constructive being evolved out of this chaotic condition that you have referred to. What would be your suggestion as to a constructive

program here to be recommended by this committee, and for Congress to act upon, to remedy that situation?

Mr. GILLEN. I think it is hardly fair to ask that of me, until I have concluded these things that I have here. Then I shall be glad to make a statement. I have not prepared anything, but I can point out certain outstanding facts that it seems to me ought to be presented at an early date to the new board in Washington.

Mr. STEELE. I was simply endeavoring, for the benefit of this committee, to obtain from you any practical suggestion you have to make that will remedy the condition you have described.

Mr. GILLEN. I will make that at the conclusion of my remarks.

Mr. STEELE. Yesterday in your testimony you stated that the fleet was operated at a loss by the Government. Is there any foreign nation that you know of that operates its merchant marine?

Mr. GILLEN. I am not posing as an expert on that matter.

Mr. STEELE. I am asking for your information?

Mr. GILLEN. Well, I would say I have no present knowledge.

Mr. STEELE. Have you any knowledge as to what the British system is?

Mr. GILLEN. I have no present knowledge sufficient to discuss it.

Mr. STEELE. Could you say, from your experience, whether the merchant marine should be continued to be operated by the Government, or whether it should be disposed of and left to private operation? Which would result in the most benefit to the Government?

Mr. GILLEN. All my life I have been a Hamiltonian in my theory of national politics. I am a believer in the Government's being organized and operated from the standpoint of the enforcement of regulations and not the operation of property. I am a believer in the Government's turning over to private operation and industry every bit of governmental work that belongs entirely to private industry. In that regard I would take away from the Army at once all of the Government construction that they are undertaking. I would get the Army out of Government construction work. I would take away from the War Department the handling of a new fleet, a new merchant marine, the Panama Railroad fleet, which they are now endeavoring to create and handle.

I would take the American merchant marine as it is now owned by the Government and I would bravely determine on a price at which it could be absorbed by American capital. And I would do that quickly. I would then endeavor to aid in every way, so far as the Government is concerned, to have the investment of private capital in the merchant marine protected by law, so that the American people will invest in marine securities as they do in Great Britain. It will take three or four years at best to sell the fleet.

I believe we have had enough experience up to the present time in handling our present fleet to realize that it is utterly impossible for the United States Government to create any board or any organization to successfully and economically control and operate that fleet. However, I fully realize that the Government has a great grizzly bear in semicaptivity and that the Government has a problem on its hands.

I firmly believe that much constructive work can be done by legislation which will put a stronger control over that property while

it still remains in the hands of the Government, and I believe that that is a vital necessity for early action. I feel it so strongly that I believe there is no greater thing the Congress can do at a special session than to promptly within two or three months after they get into session pass some new legislation that will make it impossible for the people who are handling Government property and who are being well paid for it to handle it in the manner they are now handling it.

Does that answer you?

Mr. STEELE. Partly. If your original suggestion is carried out and the fleet is disposed of upon the principles you have mentioned, it would not be necessary to have any further regulation upon the subject to any great degree, would it?

Mr. GILLEN. Regulation would be vital.

Mr. STEELE. Or any further legislation with reference to the operation of the fleet itself? That would be left to private enterprise then?

Mr. GILLEN. Yes. But I am afraid that the Shipping Board will not have that business courage necessary to meet present conditions; that when the American public realize that \$2,000,000,000—which is \$100,000,000 more than the first Liberty loan—has already gone out, there will be a fear on the part of the Shipping Board to courageously act unless it has Congress behind it. For instance, Congress says that they desire to establish a merchant marine; they said that they want to sell these ships and deliver them to the hands of private corporations, or private hands; they say they want to hold a sufficient number of the ships until certain trade routes can be established, yet they do not establish a rule of price under which the Shipping Board can act.

You have now 176 operators of ships. You ought to have not more than 50. In every congressional district along the coast line of this country are ships in the hands of operators, in which first the operator as well as the people of those districts are interested. You have that influence in Congress today, and it is a big influence.

Now, they say they want to establish a merchant marine, and they want to sell these ships, and a good many men have come along and said, "All right; we will buy those ships from the Government;" and the first money that has gone in to absorb the fleet has gone in on the wrong basis, for it has gone in on the basis of purchase at from \$175 to \$225 a dead-weight ton.

You have all of the original purchasers in a position where they are destroying to-day the first American investment in shipping securities, because you are going to break every one of these people before you get through—unless the board has the courage to do like the automobile tire manufacturers and other big manufacturers of this country have done, put those contracts down to the true basis as of to-day, and take back all the boats sold and any profit that has been made up to present time on those boats, and treat those boats as if they were sold when the new price was made, then redeliver the boats to the original owners at the established prices.

I question whether the Shipping Board has the courage to do that, and unless that thing is done the shipping securities of this country will get such a black eye that it will be almost impossible for the Government to establish the bedrock of confidence on the part of

the security-buying people of America when it gets ready to put out 1,200 or 1,500 of these boats.

Mr. STEELE. It being your idea, then, Mr. Gillen, that any Shipping Board—I do not remember whether you said now in existence or that might be appointed—would not have the courage to meet this situation, it can only be met——

Mr. GILLEN. Until Congress takes a position in reference to the Government property courageously.

Mr. STEELE. It can only be met, then, by Congress courageously, as you say, meeting the situation?

Mr. GILLEN. Yes. And I think a full disclosure of the situation to the American people; and I say to you that that is what is in the back of my head in what I am putting here now, the situation as it is, without criticism on men that have gone, can come out to the people, so that they can understand just what they have to-day and what they face to-day, what they are confronted with.

Mr. KELLEY. May I ask a question there, Mr. Steele?

Mr. STEELE. Yes, go right ahead.

Mr. KELLEY. I do not want to go ahead, I just want to ask one question.

Mr. STEELE. Go ahead. It will not disturb me in the slightest.

Mr. KELLEY. In the case of ships on the sea, the Shipping Board or any other American agency would probably never have the power to fix freight rates, would they?

Mr. GILLEN. After the liquidation takes place there should be a Shipping Board to take care of all charges made against shipping, just the same as the Interstate Commerce Commission takes care of the railway's transportation.

Mr. KELLEY. I understand; but the freight business from America out, or from the outside in, never will be done entirely in ships flying the American flag. Therefore, will it be possible even for us to fix freight rates on the sea?

Mr. GILLEN. I think that that is in the cards.

Mr. KELLEY. How could that be done, Mr. Gillen?

Mr. GILLEN. I saw the admiral issued a statement a short time ago, and it is the greatest thing that has ever been done on the Shipping Board, from a constructive standpoint. He has suggested a conference between the British shipping interests, the American shipping interests, the Norwegian shipping interests, and the Japanese shipping interests, like a trust arrangement of corporations in America before the Clayton Act and the Sherman Act, in the endeavor to arrange some plan or scheme of general regulation of rates that are not destructive.

Mr. KELLEY. I can understand how an arrangement might be made, but what I am getting at is this, would there ever be, could it possibly happen that an American commission, acting simply for America, could fix rates.

Mr. GILLEN. I do not know how it could be.

Mr. KELLEY. No, they could not do that. In the case of the Interstate Commerce Commission, of which you speak as being analogous to it, the railroads being a domestic institution entirely, they can raise the rates to meet new conditions and new extensions.

Mr. GILLEN. Mr. Kelley——

Mr. KELLEY. Wait just a minute, now, and see if you know what I am getting at.

Mr. GILLEN. I know what you are getting at.

Mr. KELLEY. Yes. Now, then, the Interstate Commerce Commission could raise the rates whenever it was necessary, and thereby take care of railroad securities. Inasmuch as no commission ever could fix the rates for freight, are you suggesting that you scale down the value of the property instead of increasing the rate? Is that what it amounts to?

Mr. GILLEN. I am not.

Mr. KELLEY. Well, I did not quite get what you said, then.

Mr. GILLEN. Do you know, we are far afield and I am talking freely, but since you have raised that question I will tell you how I think we can have a merchant marine. We will have a merchant marine when we have a strong Shipping Board without any ships to handle; and when the Government stops dock owners, the stevedore companies, the repair companies, the supply companies, and the commission brokers from sucking the life out of shipping securities by the charges that they are making; when we have Federal regulation of port charges, just as the Interstate Commerce Commission has the right to say to the railroads, "Nix, too high;" when we have a regulation of the big dock charges that have jumped from \$50 to \$75 a berthing prior to the war to \$250 and \$300 a day now in New York; and when we stop the practice that is now obtaining, working between the city of New York and the State of New York with a privilege therein, whereby they manipulate municipal property and the Government is paying through the nose millions and millions of dollars; and when we have a commission with Federal powers whereby they can regulate companies who are doing business with shipping, so that we have the actual profit made on shipping, as we have in railroads now, go to the base security; when we have that we will have made the first step; and then, when we have moral courage enough to stop and change the La Follette law as it works to-day.

I am informed that—the records can be worked out to find whether it is true—I am informed that 65 per cent of the men employed on the American ships under the American flag to-day are aliens. I am informed that about 35 per cent are American citizens and a large percentage of this latter amount consists of naturalized citizens. I am informed, whatever may be said, that the regulations on our ships due to union rules, by which overtime is paid as against our own boats and not as against foreign-owned boats with which we are competing, and the overofficering and overmanning of our ships, is preventing us from competing on the high seas, or as a factor; and when the man arises in Congress strong enough to go to the American farmer and point out what it is costing him to have that transpire, and when union labor in America, interior union labor as in my State, in Wisconsin, realizes that 85 per cent of the products of this country are sold in this country, and that those products can afford a higher rate of wage and can afford a higher standard of living, but that 15 per cent, the stuff that must go out, must be sold abroad—that all the things that we handle in this country and sell in this country can stand the high standard of living, but that the minute we go out beyond our coast line our shipping securities can not stand the high wages that are paid inside of this country; for when you get

outside of the 3-mile limit and you have foreign-owned boats to compete with, you then have to compete with the banana labor of Cuba, the sugar labor and coffee labor of South America, Costa Rica, and those places; the coolie labor of the Philippines; the coolie labor of China and Japan, and of Sumatra, as well as the low-paid labor of Europe. The foreign standard of living must necessarily, with their war debts and with their want of natural resources, be much less than in this country.

And when union labor understands for the first time that the La Follette Act is an act which stops us from operating economically our ships going to foreign ports, and establishing in foreign ports selling agencies so we can sell their surplus, that 12 or that 20 per cent that keeps up business in this country—when they realize that they will change that LaFollette Act and put us where all men on our ships will have clean quarters, and where our officers, if you please, will be American officers, with American wages; but they will clean off the other things that are destroying the American investment in shipping securities.

Mr. KELLEY. You have made a very fine statement, I should think, of the whole situation.

Mr. GILLEN. We are getting a little bit far; I am afraid I had better close on some of these things, boys.

Mr. KELLEY. I just wanted to bring you back, that is all.

Mr. GILLEN. You are getting me to go too far.

Mr. KELLEY. No.

Mr. GILLEN. I stand on what I say.

Mr. KELLEY. We understand that that is rather outside, and yet it is a part of it.

Mr. GILLEN. I have always had the courage of my convictions.

Mr. STEELE. There is no difference of opinion on that subject.

Mr. KELLEY. What I was getting at was this, Mr. Gillen, that after we have done all these things—

Mr. GILLEN. You ought to give me a little time to prepare for my stump speech.

Mr. STEELE. Some people do not need any preparation.

Mr. KELLEY. After we have done all these things, if they ever are done, if this legislation should be put through of which you speak, affecting the shipping business, as it is domestic in character so that we could do it—regulating the docks and wharves and all that, I have no doubt about that—but if that is insufficient, then if the base still drops, and the price of shipping falls, my understanding was that you said that these ships which we have sold at \$160 a ton or \$180, whatever we did get—

Mr. GILLEN. From \$175 to \$220 a ton.

Mr. KELLEY. \$220, on a long period, say 15 years in some instances, that then we should readjust those prices to fit the conditions, or else every one, or practically every one, of these companies, will go broke.

Mr. GILLEN. Will go broke. You know, they can not wait until Congress meets to pass legislation. They can not wait, and my judgment is that you are going to have prewar prices when you get through. You can not hold shipping values up, I do not care what ships cost to build during the war; you can not hold up the price of wheat to where it was during the war; you can not hold

meats up high because of the shortage here. You noticed, the other day, the Armour Co. was indicted because it brought some lamb in from Australia, at, I think it was, 10 or 11 cents a pound underneath the prevailing rate. Shortly we will begin to get the natural prices back in this country; we are getting them fast; and when that occurs you are going to have shipping values drop. I do not care what they cost us to build. Before the war they cost \$65 to \$75 a ton, and if you get an increase of somewhere near 25 per cent, or maybe 30 per cent over that, that will be somewhere between \$100 and \$125 dead-weight ton, and it must naturally come down to that.

Mr. KELLEY. Then I ask you the question over again, that being the case and we not having the power to fix the rates, are you really after all not justifying your suggestion that we reduce the value of the ship because we can not fix the rate.

Mr. GILLEN. Not at all, because you have got to compete. Your dollar has got to compete with the dollar invested in Europe. Assume you invest \$400,000 in a ship here and a like sum is invested in a like ship over in Great Britain. It will be \$400,000 competing with \$400,000. Then, too, our shipping values are coming to a European condition, because most of their shipping is old shipping, and it is going to be when you finally get through, your shipping, the world's shipping, is going to be worth somewhere around \$100 to \$125 a dead-weight ton. Our shipping values have got to compete with that.

Mr. KELLEY. Is not that because freight rates will decline?

Mr. GILLEN. No. Oh, yes, of course, that is one of the things.

Mr. KELLEY. Yes.

Mr. GILLEN. Of course, freight rates will decline; you are not going to have war-time freight rates.

Mr. KELLEY. Surely not.

Mr. GILLEN. They have declined now to a great extent.

Mr. KELLEY. But that is what makes the value of the ship and the ship security, is it not? The freight rate on land makes the values of the railroad security.

Mr. GILLEN. That, plus another thing. Europe to-day needs cotton, it needs copper, it needs the great things that we have, and we can give them to them.

Mr. KELLEY. In the case of the railroad, Mr. Gillen, we assisted the situation by fixing the rate.

Mr. GILLEN. You did, after you let them die.

Mr. KELLEY. Well, we are fixing it now.

Mr. GILLEN. Yes.

Mr. KELLEY. And the Interstate Commerce Commission probably in the future will authorize sufficiently high rates.

Mr. GILLEN. You never can fix the rate unless you come to a subsidy, and I do not care to discuss that.

Mr. KELLEY. No, I do not want to get into that.

Mr. GILLEN. Because the minute you try to fix the rate of the freight, say I am over in Liverpool and I am buying cotton in America, and if I do not like your rate I will use a British bottom.

Mr. KELLEY. Absolutely.

Mr. GILLEN. Well, that is out of it.

Mr. KELLEY. That is out of the question. Now, is not your suggestion that the price of the ships be reduced from time to time, practically in lieu——

Mr. GILLEN. Not from time to time.

Mr. KELLEY. Wait a minute; in lieu of the fact that we are not able to adjust the rates.

Mr. GILLEN. That is not the reason of it at all.

Mr. KELLEY. Is that not your justification for the suggestion?

Mr. GILLEN. No, it is the explanation you make of it; it is not mine.

Mr. KELLEY. I was trying to get at what your explanation and justification of it was.

Mr. GILLEN. I will give it to you; and one step further. I have the highest respect for the American business man. I think he is the greatest business man in the world as a producer or as an operator; I do not think there is his equal anywhere. And here in this country he can stand to have a lot of regulations and everything else thrown on him, because he sells 85 per cent of his goods in America; but when you take and put him out over the seas, competing with the world, and you tie him up with additional expensive regulations and charges, he can not compete, but when once he is unshackled over the 3-mile limit, and he has the same amount of dollars to play with as the other fellow in his base investment, he will beat the other fellow.

Mr. KELLEY. Well, does that mean that we have got to adjust these values down to \$70 a ton, eventually?

Mr. GILLEN. No.

Mr. KELLEY. Or else have these people go broke?

Mr. GILLEN. No, not \$70 a ton, not at all, because I stated to you frankly I did not believe it would come to \$70 a ton; I told you I thought that it might possibly come to \$100. But it is questionable whether the new tonnage will come to \$100—it is somewhere between \$100 and \$125, from what you can get from reading and talking with men, and everything else. But you unshackle the American business man and American investment, and he will clean the world, and he will do it for the benefit of the American farmer and the American laborer, and the man who will benefit more than anybody else will be the American union laborer, because there is nowhere in the world where he can get what he can get here, and he has hooked something on to himself through the La Follette Seaman's Act, in my judgment.

Mr. KELLEY. I am very much obliged, Mr. Gillen.

The CHAIRMAN. Mr. Steele?

Mr. STEELE. Mr. Gillen, you have described the difficulties——

Mr. GILLEN. You know, I do not think it is fair for you to get me way afield here. You have found that I have been thinking on these questions, and now, instead of going on in this investigation your dear committee are hooking me over on an entirely different line. This is not investigating the Shipping Board. Pardon me, Mr. Chairman.

Mr. KELLEY. Well, it has to do with the sale of these ships, which is important, you know.

Mr. GILLEN. Oh, yes, it does; I think that is true.

Mr. STEELE. You have referred to getting a little far afield. Inasmuch as we are afield now, it is a condition and not a theory any more; probably it would do no harm to go a little farther afield. You have described the conditions that prevail abroad, and the difficulties that

the American business man might have in meeting conditions abroad. Do you think the tariff has anything to do with that?

Mr. GILLEN. I have no comments to make. Let us see, what is the regular stock phrase one should use on an occasion like that? I have no present judgment on that sufficient to express an opinion.

Mr. STEELE. I thought it was a good opportunity, and you might.

Mr. GILLEN. I have some very definite ones.

Mr. STEELE. Bear in mind, those questions are simply propounded by a very bad Jeffersonian.

Mr. GILLEN. Well, then, I will answer you. Europe needs our things to rebuild. We have those things in the shape of raw materials to give her. I am in favor of holding American markets for our people, in the richest country in the world, where we have the greatest natural resources. I am of the opinion that we should furnish Europe with the things that she needs, and I am of the opinion that since we do not know international trading to any great extent, and since we are already in Europe to a very heavy degree, with the billions they owe us, that we should finance, through the War Finance Board or some other board, the cotton of the South to begin with, and we should finance and stand back of the other big raw material products that are necessary for the rebuilding of foreign countries. But we should stipulate in the bond that those things shall be sold in the markets of the world, and that upon the return of the 'nine months' credit which it generally takes to turn it about, we shall be paid out of those reflections, so we do not get the stuff of Europe over here to pay her debts; and I think we should have a protection as against those things that come from Europe, and we should force them to go into the foreign markets.

Now, connected with that is this thought, and herein lies a fallacy in reference to the American merchant marine: We are a proud and a boastful people; we believe that anything we undertake we should excel in, not only in the operation of it but in the extent of it. We are great producers. The attitude of most men when they stand up to make a speech on the merchant marine is that we are going to drive England off the seas; that is the thing for us to do. Now, then, what we must do is this: We must realize that prior to the war Germany was a commercial nation, which was building itself up by foreign trade. The percentage of it I do not know, but I imagine 40 per cent of her manufactured products she had to sell in the markets of the world. She had to do it of necessity economically to live; she could not do otherwise. That was a thing with which that nation was confronted and which still confronts her.

Great Britain is a small island, it is a trading nation, it is a seafaring country, it has great coast lines, and many people on a little island. I can not give you the figures, but they would be well worth investigating. I dare to say that 50 to 55 per cent of her national business is in shipping; she has got to do it. She is a great world trader. We have only got to do 15 per cent of our business with foreign countries, and anything else we take beyond that is velvet to the shipping business.

Now, the American people should be interested and the Congress should be interested in getting a merchant marine strong enough to take care of our products and find the world markets to take care of our surplus. That is what the base of it should be, and we should stop rowing or having in our minds that we are going to destroy or

take away the business of anybody. We ought to do like the great business men of this country do; find out what their business problems are, and if it is a sales problem, find out what he has got to sell, and see where his market is—to sell all he produces—and forget about his competitor, and go about to take care and perform that natural function; and that is what we should do, we, the American people, in reference to our shipping interests. If we lose our position again in the shipping world it will be because of inefficiency, waste, and failure to enact protective regulations.

Mr. STEELE. Mr. Gillen, that surplus in your judgment is likely to grow, is it not, for which we must find foreign markets for the increased population and increase of manufacture in the country.

Mr. GILLEN. Well, you know old Malthus had a certain doctrine and when he worked it out it did not get him anywhere; so when you begin to figure out what is going to happen with the increased population, as immigrants come here or we naturally increase our population here, you will find the new population will be as good feeders and they will demand just as much under our high standard of living; and, again, from every standpoint, I think it will be many years before we get back to the efficiency of production we had before the war. I think the war has injured the morale of the American working man, and I do not think he is anywhere near the producer that he was prior to the war, and I do not believe that we will get that condition back here for many years, and I do not believe we will produce any greater percentage than we produced before the war.

Mr. STEELE. Just one other question, and then I will stop. America is now quite a large creditor nation of Europe?

Mr. GILLEN. She is.

Mr. STEELE. Would the 15 per cent allowance for foreign trade be sufficient to meet the indebtedness of Europe to America, as a matter of barter and trade?

Mr. GILLEN. I do not know; and I used the figure 15 per cent, because that is the one that I have heard used, and you would have to get the statistics to check up those figures. But therein lies the basis of future merchant marine and the regulation of it, and the sustaining of it, in that; there is the germ of the idea to work on, and the statistics can be gathered along those lines.

Mr. STEELE. I have finished, Mr. Chairman.

The CHAIRMAN. Mr. Gillen, do you know anything about the power of the Interstate Commerce Commission to regulate or control or supervise the railways of foreign countries, that come through our territory?

Mr. GILLEN. I have not made any study of that; I have no knowledge of it.

The CHAIRMAN. Do you know the power of the Federal Government to supervise ships which reach our shore?

Mr. GILLEN. I know there are certain regulations, but the details of them I have never given study to.

The CHAIRMAN. They do exercise supervision of them, once they come inside the three mile limit?

Mr. GILLEN. I believe so.

The CHAIRMAN. We will recess until 2 o'clock.

(Whereupon, at 1 o'clock p. m. a recess was taken until 2 o'clock p. m.)

AFTER RECESS.

The committee resumed at 2 p.m.

TESTIMONY OF MR. MARTIN J. GILLEN—Resumed.

The CHAIRMAN. Mr. Gillen, you may resume your testimony if you have something to say, that you have not completed?

Mr. GILLEN. I want to put in this entire statement, which is a memorandum for the Requisition Claims Board, together with report to the Attorney General.

UNITED STATES SHIPPING BOARD,
Washington, November 6, 1919.

Memorandum for the Requisition Claims Board.

I beg to submit herewith with my approval the discussion and conclusions of Mr. Gillen re just compensation as applied to charter hire, dated November 1, 1919.

This places the matter in a form which it seems to me is incontestable, and you are at liberty to give this to claimants if you approve it as the basis to be applied in determining this question.

PAYNE, *Chairman.*

NOVEMBER 7, 1919.

Memorandum for the chairman.

In regard to the above memorandum, this committee submits the following resolution, which has been passed by it this date:

"Resolved, That the doctrine of just compensation as applied to charter hire, set forth in the memorandum of Martin J. Gillen, special assistant to the chairman, of November 1, 1919, is hereby adopted."

Respectfully submitted.

REQUISITION CLAIMS COMMITTEE.
E. M. WEAVER, *Chairman.*
H. H. ROUSSEAU, *Member.*
ROBT. A. DEAN, *Member.*

UNITED STATES SHIPPING BOARD,
Washington, November 1, 1919.

Re just compensation as applied for charter hire.

My DEAR JUDGE: There are a number of claims for charter hire unadjusted which stand in the way of the immediate collection of at least eight or ten million dollars. Cases where the original owners are now operators—who claim "that consequential damages occurred as to them through requisition orders of the Shipping Board," such as (a) tanker cases where the tankers were in use by an owner to haul oil to the owner's refinery, (b) shipping companies whose boats were taken off regular trade routes who suffered losses through the expense of maintaining their foreign offices and agencies to which they could not supply service, and (c) other cases involving the same principle.

There seems to be a confusion among the operators of our own boats who are owners of requisitioned boats, on the point that they must take an award from our board before proceeding to the Court of Claims. Also that responsibility for interest charges occurring on account of their not moving will be theirs. These owners who are now also operators did not sign up at the rate established by the board. I am of the opinion that many of these cases can be cleared up from the standpoint of the cash due from these operators by a letter from the chairman.

In this regard I offer the following comments on the basis of just compensation for charter hire:

All property rights of citizens of the United States are subject to the Constitution and laws of the United States. This Government will pay just compensation for all property requisitioned. And in equity and law the application of the doctrine must be alike as far as practical when applied by the Shipping Board, War Department, Navy Department, Department of Interior, and other departments of the Government.

Payment for consequential injury to property not taken, but caused by a taking of other and different property of the same owner is not an element of "just compensation" for the property actually taken, since it is not an element of value of such property. The issuance and execution of restrictive orders by the Government under its war powers by the Fuel Administration, War Trade Board, Railroad Administration, Food Administration, the priority board of the War Industries Board, and the Shipping Board wherein and whereby great consequential damages have occurred to American citizens have left to them no rights for just compensation. It was determined early in the year 1918 that there was a (a) national shortage of transportation, (b) of man power for war and domestic production, (c) essential materials for war-power needs, and (d) of food products for ourselves and our allies. Together with other departments of the Government, the War Industries Board, put into effect, large restrictive orders against what was known as the nonessential industries of this country. Great groups of industries suffered untold damages by these orders. Attached is a list of 23 industries affected. These industries are as individual in their national scope one from the other as the Shipping Refining Industry is distinct in its operations.

Under these Government orders, the individual operatives in many of those industries were compelled to close their doors and allow their agencies and good will, created by vast advertising policies, to lapse. There is no right under the doctrine of just compensation for an allowance of damages to these men and institutions.

In the case of one industry—the automobile industry, which was greater in value and more profitable than the shipping industry—the story runs as follows: It had produced 1,870,000 passenger cars in 1917. It was enjoying a most profitable period of expansion and profits. The Ford, Willys-Overland, General Motors Co., and nearly all the other of our motor companies had large and expensive domestic and many of them foreign agencies. In April, 1918, their production was cut to 70 per cent; on July 1 25 per cent of their 1917 production, with a notice that on January 1, 1919, production in this industry would be stopped. The production for 1919 was cut approximately to 935,000 cars—60 per cent of which was produced before July 1, 1918. In consequence thereof, their agencies were crippled and heavily damaged without compensation. The same story is true in the automobile-tire industry, which maintains great selling agencies scattered through every city, hamlet, and crossroads in this country, and with operations in foreign countries.

The business and profits of these great industries were injured without compensation, while on the other hand, in all cases where the Government could use the physical properties or facilities of any of its citizens for war purposes, it not only insured the base value of the property or facilities but also offered a fair rate of income on the property or facilities requisitioned. In the case of the shipping industry it offered and paid a handsome profit. The Government, by its war powers, had the right to stop profiteering or unusual profits that were created by the shortage of physical property or materials. It regulated downward the price of steel, of lumber, of coal, and many other commodities. In the case of the packers it fixed their profit at not to exceed 9 per cent, and made no allowance for an interest charge in addition thereto on the money invested. Then, too, it regulated the profit of all its war manufacturers as nearly as possible to 10 per cent on their sale price. Under the rule of the War Department, interest on the investment was not permitted to be charged unless the interest was a part of the borrowed capital and allowed depreciation on the basis found from the books of the company to have been the established practice of the company over a period of years when applied to the original investment and not to the then market price of the plant and equipment.

The Government did not take into consideration on any of these restrictive orders whether or not the owner had unusual opportunities for making a large sum of money with his property because of the unusual fortunate position granted to him by the exigencies of the war. It took the opposite course. However, they found a condition where, through shortage of materials or properties great profits were being made, the Government called it profiteering and cut the profits down.

Analyzing the charter hire rights for just compensation, in view of our general war policy and the war policy of other departments of the Government, it is fair to assert that when the Government requisitioned all of the floating property in this country which was then enjoying temporarily high rates of income due to the exigencies of the war, that it had the inherent right to fix a tariff or rate which would have materially cut the price of ocean rates to a point in harmony with the profits allowed to other citizens of the United States in war times. The exercise of this power would have instantly driven out a large part of the speculative value of the then existing tonnage. This power was not exercised by the Government before the amount of just compensation was fixed by the Shipping Board.

Under the requisition order of October 12, 1917, there was taken all ships of 2,500 tons and upward. It fixed a rate of \$4.15 per dead-weight ton per month for cargo boats and \$5.75 per ton gross per month for passenger steamers of 11 knots speed, with an additional allowance of 50 cents per ton for each knot in excess of 11 and up to 16 knots. It assured the war risk and in some instances the marine risk as well. All tonnage was treated as of the value of \$175 per ton. Eighty per cent of the tonnage taken did not originally cost to exceed \$75 per ton. By fixing the base value of tonnage \$175 per ton the Shipping Board did not recognize the theory of profiteering established by the Government in all other matters. They arrived at the \$4.15 per ton by the following method. They allowed (a) 10 per cent for annual depreciation, (b) 6 per cent on investment figured at \$175 per dead-weight ton, and (c) then added 9 per cent for profit.

An analysis of the books of account of the several ship-owning companies will disclose that over a period of years and estimating from a basis of true wear and tear as depreciation, these owners did not charge off on their books to exceed 5 per cent. Thus the allowance of 10 per cent was an allowance of at least 5 per cent profit. In none of the other departments of the Government in applying the doctrine of "just compensation" was an allowance of 6 per cent interest on capital invested allowed. Thus an additional factor of 6 per cent profit was allowed. These two items added to the third factor, 9 per cent profit, made 20 per cent profit.

It is also a fact that nearly all of the ships afloat at this time of requisitioning order in the hands of original owners stood on the books of the owning company at \$70 per ton or less. They had been built from 1 to 30 years ago and carried a large accumulated depreciation charge which would average the tonnage below \$60 per ton. By fixing the base value at \$175 a ton a fourth factor of profit, large and important, was allowed, which made the total annual net profit of 57 per cent on the investment. A fair example of how the profit worked out is as follows: Assume a ship of 10,000 dead-weight capacity was built 10 years ago at \$70 per dead-weight ton—the cost price per dead-weight tonnage in 1909 was much less than \$70 per ton—its cost would have been \$700,000 in 1909.

Without charging against that value depreciation for 10 years, and taking its course as a basis on October 12, 1917, —25 per cent of \$700,000 is \$135,000, which would be the annual charge for use on a \$4.15 per ton basis. Twenty-five per cent of 10,000 times \$175, or \$435,500, which was the amount actually allowed. On the basis of actual valuation of \$700,000 the sum of \$437,500, produced a profit to the owner of 62.50 per cent less 5 per cent for depreciation or \$57.50 per cent annual profit. By this operation the Shipping Board allowed a larger profit to the owners of ships than it allowed to any other class of its citizens on property requisitioned in the many other war producing lines. That allowance was more than generous from the standpoint of just compensation.

The rate was fixed and very nearly all of the owners signed up contracts and have accepted payments thereon. To allow the boat owners who refused to sign up, to get a larger and stronger rate would be manifest injustice and unlawful under the law. From the record now before the board it almost seems (a) that with those whom no contract has been made that the offer of \$4.15 per ton for cargo ships and \$5.75 per ton for passenger boats should be withdrawn and notice sent to these owners of the fact (b) that these owners should be compelled to produce the books, and records of their companies on each ship showing actual cost and whether built on original contract or purchased, together with the depreciation charges on each ship as kept on company's records. (c) A list of the ships requisitioned and not under contract should be compiled and the data of construction, etc., gathered from Lloyd's register together with the insurance policies of insurance records books of the corporation running back for the years of ownership.

These facts, when gathered on each ship will permit of an early award and give the claimant an early opportunity to appeal to the Court of Claims if not satisfied.

Attached hereto are a few building costs of ships, compiled by our construction and repair department, also legal conclusions of Edward H. Abbot, jr., on doctrine of just compensation.

Respectfully submitted,

MARTIN J. GILLEN,
Special Assistant to Chairman.

Legal conclusions of Edwin G. Abbott, jr., on "The right of citizens and residents of foreign countries to receive compensation for the loss of their contracts for the construction of ships in American shipyards."

1. Performance of a contract to build a vessel in American shipyards is subject to the Constitution and laws of the United States.

2. It is doubtful whether the United States had jurisdiction to requisition the obligation of an American shipbuilder to build a vessel for a foreign claimant even upon payment of just compensation. The better view seems to be that it did not have such jurisdiction.

3. Whether or not the United States did or did not have jurisdiction to requisition the obligation of an American builder to build a vessel for a foreign claimant, it did not, in August, 1917, attempt to make such requisition. The requisitions orders were in terms confined to the tangible property within our territories, namely, "Vessels under construction and materials, machinery, equipment, and outfit thereto pertaining."

4. Since performance of contracts for the construction of vessels in American yards at all times subject to the subsequent exertion of the powers conferred by the Constitution upon the United States, including the war powers, delay in or defeat of such performance caused by subsequent exertion of these powers does not entitle the holder of such contract to compensation either under the fifth amendment or under section 3 of the act of June 15, 1917. The "just compensation" required alike by the fifth amendment and by section 3 of that act does not include payment of such consequential injury.

5. Where unfinished vessels and/or materials therefor were requisitioned for the public use, the "just compensation" therefor required alike by the fifth amendment and by section 3 of the act of June 15, 1917, must be based upon the reasonable value of that "congeries of materials" in their then condition and situation at the time they were taken, and under the circumstances which then existed. No compensation for the loss of the contract to complete them should be included since that contract was not taken and the loss of it was a consequence of the concurrent exertion of the authority to control the production of ships and ship materials by virtue of the war powers vested in the Federal Government by the Constitution. Even if those contracts had been defeated by requisition of the unfinished hulls the result would still be the same.

Payment for consequential injury to property not taken caused by a taking of other and different property of the same owner is not an element of "just compensation" for the property actually taken, since it is not an element of value in such property. Nor can the element, for the reasons already indicated, recover for that "congeries of materials" as a potential ship either on the ground that they were a ship in fact or because the Government proceeded to complete them into a ship subsequent to the taking. They were not a ship when taken, and the use to which the Government subsequently put them is immaterial. In a word, if the claimant receives the reasonable value of the congeries of materials determined at the time of the taking in view of the situation which then existed, he receives a just compensation required alike by the fifth amendment and by section 3 of the act of June 15, 1917.

EDWIN H. ABBOTT, Jr.

CONSTRUCTION AND REPAIR DEPARTMENT,
October 28, 1919.

Memorandum for Mr. M. J. Gillen.

This confirms my telephone conversation of yesterday regarding the cost of ship construction previous to the war. The prices did not commence to soar until March, 1915, and the average as given below represents first-class construction of both tankers and cargo boats in established and responsible shipyards:

Price per dead-weight ton of tankers and cargo vessels.

	Tankers.	Cargo Vessels.
Up to March, 1915.....	\$75.00	\$85.00
March, 1915, to March, 1916.....	121.00	110.00
March, 1916, to April, 1917.....	170.00	158.00

For your information I give below actual tanker contracts.

Actual tanker contracts.

Date.	Hundred-weight.	Price per hundred-weight.
April, 1915.....	10,200	\$75.00
May, 1915.....	11,000	85.00
August, 1915.....	12,000	.....
December, 1915.....	15,000	90.00
March, 1916.....	91,000	121.00
April, 1916.....	102,000	133.00
October, 1916.....	102,000	147.00
February, 1917.....	91,000	180.00
November, 1917.....	10,100	¹ 225.00

¹ Fleet.

ROBERT L. HAGUE,
Manager, Construction and Repair Department.

Memorandum for Mr. Gillen.

At the outbreak of the European war, the British Government requisitioned all boats under the British flag and established what was known as blue-book rates for tramp steamers on a bare-boat basis. The rates paid to the British owner under requisition was as follows. The reductions herein have been made on a basis of exchange of \$4.8665, as against \$4.16 today.

Rates for tramp steamers on a bare-boat basis.

	Rates per gross registered ton per month.	Estimated rate per total dead-weight ton per month.
2,001 to 3,000 tons dead-weight.....	\$1.34	\$2.01
3,001 to 4,000 tons dead-weight.....	1.21½	1.92½
4,001 to 5,000 tons dead-weight.....	1.09½	1.64½
5,001 to 7,000 tons dead-weight.....	.97½	1.46½
7,001 to 9,000 tons dead-weight.....	.97½	1.46½
Over 9,000 tons dead-weight.....	.85	1.27½

It is not possible to transpose gross register tons to total dead-weight tons, for the figures will differ in nearly every case; but the total dead-weight tonnage is approximately one-half greater than the gross register tonnage. In other words, the rate per gross register ton of \$0.97½ would be equal to about \$1.46½ per dead-weight ton. In addition to allowing the above rates to the owners, the British Government assumed the war-risk insurance on the hull and machinery.

At the time the tramp steamers were requisitioned, they also requisitioned the passenger vessels on gross form of charter. In other words, the owners paid for the crew, their food, engine and deck stores; and the rates allowed were as follows: Fifteen knots and under 18, \$4.13½ per gross ton per month; 14 knots and under 15, \$3.69½ per gross ton per month; 13 knots and under 14, \$3.65 per gross ton per month; 12 knots and under 13, \$3.40½ per gross ton per month.

The gross register tonnage of passenger steamers in many cases is not as much as the total dead-weight tons; but in many cases it is slightly more, the difference depending upon the passenger carrying capacity of the steamer; but the British Government made no distinction of this point. They gave all owners hire on the above basis, irrespective of what capacity she had.

The requisition rates paid to American shipowners by the United States Government is based on the dead-weight tonnage and Government form of time charter where the owners pay for the crew, their food, engine and deck stores.

Respectfully submitted.

J. B. SMULL.

SEPTEMBER 21, 1918.

From: Priorities Board.

To: The Commodity Chiefs and Section Heads.

Subject: Curtailment of industries.

1. The industries listed below have been curtailed for the period and to the extent stated.

(1) *Passenger automobiles*.—For the last six months of 1918, curtailed to 25 per cent of 1917 production, provided that the manufacturer will limit his purchases of materials, equipment, and supplies to such as are absolutely necessary to match up stocks on hand.

(2) *Pianos*.—For the last four months of 1918 the piano industry, including piano-players, pianos, and parts, be curtailed to one-third of four-twelfths of its 1917 production.

(3) *Cutlery*.—For the last four months of 1918 curtailed to 70 per cent of four-twelfths of 1917 production, which 70 per cent shall include Government orders.

(4) *Stoves*.—For the last four calendar months of the year 1918 to be curtailed to 20 per cent of four-twelfths of 1917 production, which 50 per cent shall also include Government orders.

(5) *Black galvanized and enamel ware*.—For the last four calendar months of the year 1918 to be curtailed to 50 per cent of four-twelfths of 1917 production, which 50 per cent shall also include Government orders.

(6) *Burial-goods industry*.—Curtailed to 2,200 tons of the iron and steel for the 12 months' schedule.

(7) *Clothes wringers*.—Curtailed to two-thirds of four-twelfths of its 1917 production for the last four months of the calendar year.

(8) *Corsets*.—For the last four months of the calendar year, curtailed to two-thirds of four-twelfths of their 1917 production.

(9) *Linoleum*.—For the last four calendar months of the present year, curtailed to 40 per cent of four-twelfths of 1917 production.

(10) *Metal beds*.—For the last four months of the calendar year, including orders for the United States Government and the Allies, curtailed to 50 per cent of four-twelfths of 1917 production, and provided that no brass beds be built except from stock now on hand, and that no brass or brass scrap be purchased.

(11) *Boilers and radiators*.—For the last four months of the calendar year, no boilers or radiators shall be manufactured or sold, except for Government building or buildings built under license from the War Industries Board, and in no event shall the production including repairs and Government orders, exceed 40 per cent of four-twelfths of 1917 production.

(12) *Brewing industry*.—Recommended that production of all brewery products cease on and after December 1, 1918, and that all agencies of the Government should cooperate to the fullest extent in carrying this resolution into effect.

(13) *Baby buggies*.—Permitted to operate on a basis of 50 per cent of four-twelfths of their 1917 production, and that they be given a Class "C" rating for enough metal to match up stocks now on hand provided discard steel only shall be used.

(14) *Composite roofing*.—Composite-roofing manufacturers shall not manufacture or sell their commodity except for buildings built by the United States Government and the Allies, or under license from the War Industries Board.

(15) *Sporting goods*.—That for the last four months of 1918, the manufacture of the following-named articles of sporting goods shall be curtailed to the percentage of four-twelfths of their 1917 production, as is set opposite the said articles:

	Per cent.
Tennis balls.....	40
Foot balls and equipment.....	60
Base balls, bats, and equipment.....	60
Golf balls and golf clubs.....	40

And that there shall not be any athletic clothing manufacturing after the stocks on hand have been used up.

(16) *Gas stoves and gas appliances*.—For the last four months of 1918 be curtailed to 50 per cent of four-twelfths of the 1917 production, and that they eliminate all copper except that which they now have on hand, which they are urged to conserve to be used for repairs to existing installation.

(17) *Automobile pneumatic tires*.—(a) The War Industries Board will deal with the rubber industry as a controlled industry.

(b) Using as a basis the production of pneumatic tires for the 18 months ended June 30, 1918, the maximum production of each manufacturer for the last four months of 1918 is fixed at four-twelfths of 50 per cent of the average annual production for said 18 months period, with all appropriate adjustment where a manufacturer was not in

production on January 1, 1918: *Provided, however*, That such maximum production may be increased to the extent of tires produced on direct orders from any agency of the United States Government.

(c) Further curtailments, adjustment and regulation of this industry will be made from time to time by the priorities division and by the rubber section of the War Department Board.

(18) *Tin plate*.—For the last three months of the calendar year, curtailed the use of steel to 70 per cent of that of the last quarter of 1917. This will result in a saving of approximately 150,000 tons of steel for the last three months.

(19) *Soft drinks and mineral waters*.—That effective November 1, 1918, the production of nonalcoholic beverages (other than near beers, which have already been prohibited after December 1, 1918), including the manufacture of fruit juices, waters, concentrated extracts, sirups, and carbonic acid gas, be curtailed to basis of 50 per cent per annum, based on the production for the calendar year 1917; that is, no month's production shall exceed 50 per cent of the production of the corresponding month of the previous year. Grape juice, cider, and logansberry juice products of this year's harvest may be produced but the restriction must apply to the year 1919.

(20) *Talking machines*.—Effective September 1, 1918, for the last four calendar months of the year to be curtailed to 40 per cent of four-twelfths of 1917 production, in units and on a tonnage basis, and provided further that the industry is urged to secure war work before expiration of the said four months.

(21) *Agricultural implements and farm tractors*.—Effective October 1, 1918, on a 12 months' schedule, be curtailed in their use of iron and steel to 75 per cent of their consumption for the calendar year ending September 30, 1918.

(22) *Bicycles*.—For the last four months of the calendar year curtailed in their use of iron and steel to 75 per cent of four-twelfths of the 1917 consumption; provided further that bicycles for children and for racing purposes be eliminated.

(23) *Refrigerators*.—For the last four months of the calendar year be curtailed to 65 $\frac{1}{2}$ per cent of four-twelfths of its 1918 consumption of iron and steel; and provided further that zinc plates to be substituted wherever possible.

H. G. PHILLIPS,
Secretary Priorities Board.

REPORT TO THE ATTORNEY GENERAL IN RE COMPENSATION FOR COMMANDEERED PROPERTY.

Before Mr. Davis left he asked me, as you know, to investigate the matter of just compensation for requisitioned property. I submit herewith a report on the present situation.

On July 23 we requested counsel for 15 governmental agencies to submit reports with reference to the commandeering in their respective departments. All except four—the Shipping Board, the Fleet Corporation, the Food Administration, and the Fuel Administration—had no such matters to report. The Council of National Defense and the War Industries Board have not replied. The amount of requisitioning done by the Food and Fuel Administrations does not appear to be large, but that done by the Shipping Board and Fleet Corporation involves millions of dollars.

A view of the entire situation will be available after replies are received from the letters sent November 12 to the War and Navy Departments.

From the reports already submitted as to the principles adopted in measuring "just compensation" for property commandeered it appears that various standards have been in use. The Food Administration pays on a price basis of the local elevator. The Shipping Board "has been guided chiefly by reference to the present cost of construction to the Emergency Fleet Corporation less depreciation." Although the principles adopted by the other agencies of the Government are not set forth in their letters, I understand that the Emergency Fleet Corporation formerly sought to reimburse the owner of an uncompleted ship for his actual outlay, whereas the Navy often used the standard of market value, that is, a value based upon the abnormal war prices at which the property might have been sold on the day and place of the taking.

The situation is of the sort that was designed by the Executive order of May 31, 1918, to be ironed out by the Attorney General; for although business considerations may often dominate the policy of settlement by the various agencies of the Government, there must be certain underlying legal principles to guide the administrative settlement as well as the decisions in litigated cases.

The Constitution provides (fifth amendment), "Nor shall private property be taken for public use without just compensation. The statutes under which requisitioning has taken place during the present emergency do not impose a different standard. Most frequently the constitutional terminology "just compensation" is employed.

It is settled that the Constitution requires a fair indemnity to be paid for the value of the property taken, and that the value must be estimated as of the time and the place of the taking. Our question is as to the principles which govern the valuation; for example, if a ship is built in 1910 at a cost of \$50 a ton; is sold in 1913 for \$45 a ton; again in 1915 for \$75 a ton; in 1916 for \$100 a ton; in the spring of 1917 for \$200 a ton; and in the summer of 1917 for \$300 a ton; may be reproduced in August, 1917 at a cost of \$200 a ton and is requisitioned in that month—what is the value at the time?

We may consider the methods of valuation commonly in use.

THE MARKET VALUE.

In the ordinary condemnation case compensation is awarded on the basis of market value. The decisions without number refer to this as the price which a buyer desiring but not compelled to buy will pay to a seller desiring but not compelled to sell. (1 Nichols, Eminent Domain, 2d ed., secs. 217, 218; Lewis on Eminent Domain, 3d ed., sec. 706; Sedgwick on Damages, 9th ed., sec. 245.) Relying on the common statement of the rule, claimant in the Luckenbach case, now pending in the Court of Claims, seeks to recover for certain tugs and coal barges taken in August, 1917, an alleged market value based upon the inflated war prices at which similar property was held at the time.

Market value, however, is not an end in and of itself; it is only used as a matter of evidence. Where conditions of free competition have full play and standard articles frequently exchange hands between persons not compelled to trade, their judgment as to commercial value under normal circumstances may be accepted as the best evidence of the true worth of property. The standard obviously fails if there is no market, or where the conditions which make the test a proper one do not obtain.

The authorities recognize the limitations on the market value rule. Thus, Mr. Justice Holmes in *United States v. Sage* (239 U. S., 57, 61) speaks of "But what the owner is entitled to is the value of the property taken, and that means what it fairly may be believed that a purchaser in fair market conditions would have given for it in fact. * * *

Similarly, the instruction approved in *Brown v. Calumet River Railway Co* (125 Ill., 600, 606), is that the jury "are not to consider the price which the property would sell for under special or extraordinary circumstances, but its fair cash market value if sold in the market under ordinary circumstances. * * *" This ruling was repeated in *Lanquist v. City of Chicago* (200, Ill., 60, 73), where the court said:

"The rule, that permits proof of other sales in order to show value, requires that such sales should be made in a free and open market, and where a fair opportunity for competition exists."

In *Lawrence v. Boston* (119 Mass., 126, 128), the following instruction to the jury was approved:

"* * * 'Market value,' means the fair value of the property as between one who wants to purchase and one who wants to sell any article, not what could be obtained for it under peculiar circumstances, when a greater than its fair price could be obtained, nor its speculative value, not a value obtained from the necessities of another."

Dillon on Municipal Corporations (5th ed., v. 3, sec. 1060) phrases the rule as follows:

"The compensation to which the owner of lands taken for public use is entitled is the market value in money fairly determined as between persons buying and selling under conditions which do not result in the sacrifice of the property or the exaction of an enhanced price by reason of exceptional circumstances."

It is true in each of the cases just referred to, the particular situation held not to be representative of fair market conditions was not a war. In the *Sage* case the precise item disallowed was for reservoir adaptability of the land condemned in connection with other land, an adaptability made possible by the city's exercise of its power of eminent domain, and Mr. Justice Holmes said, "The city is not to be made to pay for any part of what it has added to the land by thus uniting it with the other lots." In the *Lanquist* case, the question was as to the inadmissibility in evidence of a transfer of land in satisfaction of a precedent debt. In *Lawrence v. Boston*, the question was whether the price the owner of an established business would have been willing to give rather than move, was competent as showing the market value of the premises. But though the cases may be distinguished, and their language should not be taken too broadly, they are sufficient to indicate that a sale must be under normal competitive conditions before it can be said to reflect the market value which is used as a guide to ascertainment of "just compensation."

The 1917 prices of ships, before the Shipping Board general requisition of August 3, 1917, were generally speculative, and for this reason can not be said to show fair value under fair market conditions after that date. It was known in shipping circles

that the Government might at any moment take over all public and private ocean carriers, or at least prescribe (under the war power) lower rates than prevailed. Before August, 1917, men gambled that they might make at least one trip at the charter hires obtainable before the Government could act, and thus recoup any abnormal price paid. After the general requisition order, trading in ships practically ceased. These are not the earmarks of fair market conditions.

The sudden rise in prices generally, especially after our entrance into the war, also shows that market conditions were not normal. Any price which might be quoted was temporary and violent fluctuations frequently occurred from day to day. The closing of the stock market, July 30, 1914, to December 12, 1914, is illuminating. While it is true that the owner must be compensated for the value of his property as of a particular day, the true value can not be said to be necessarily shown by prices of sales of similar property on precisely that day. Condemnation of property is a proceeding in rem. An equivalent is to be paid for the res. Every personal element in the transportation is to be disregarded. As said in *Monongahela Navigation Co. v. United States* (148 U. S., 312, 326):

"And this just compensation, it will be noticed, is for the property and not to the owner. Every other clause in this fifth amendment is personal. * * * The personal element is left out, and the just compensation is to be a full equivalent for the property taken."

The res is a continuing object. Its value as of a certain day is not necessarily determined by what another owner was able to obtain for another piece of property as of that day. Its value in the future, when the temporary conditions of which the owner may not avail himself have subsided, is to be taken into account.

That the Constitution was not designed to secure a valuation based upon the temporary abnormal market is shown by the absence of any express provision with reference to the punctum temporis of the taking. So far as the Constitution is concerned, the time of the taking may be fixed as of the day of a proclamation of the President, or the day of taking possession, or the day suit is filed, or the day of the trial. Capricious accident may determine which of these dates is taken. Different dates may be taken in proceedings against different owners of identical pieces of property. It would seem that the Constitution secures to both owners the same fundamental right—an equivalent of a fair, normal value.

These considerations are reenforced by the principle that compensation must be just not only to the owner but also to the public. (*Bauman v. Ross*, 167 U. S., 548; *Searl v. School District*, 133 U. S., 553, 574, 562; *Garrison v. New York*, 21 Wall., 196, 204.) Property is held at all times subject to the inherent and necessary sovereign power of eminent domain. A rule of damages should not be adopted which will prevent the effective exercise of the power. It is not simply a jury argument to say that a claimant should not be permitted to profit by temporary war values which the war has created. In this connection *Searl v. School District* (133 U. S., 553), is interesting. The school district under erroneous belief that it had title, had built a school house on land which it subsequently sought to condemn. It was held that the true owner was fully compensated by obtaining the value of the land without the building, even though he had legal title to the building at the time of condemnation.

Moreover, the sudden increment due to the war, and the subsequent national necessities, is an element which may be taken away without compensation by exercise of national power which is made possible by the same national necessities. Reasonable prices may be fixed for sale of foods, feeds, fuels, ships, and other property, both for sale to private parties and to the Government. These need not exceed a reasonable profit, as least so far as property in existence before the war is concerned, over prewar prices. Any loss to owners of what they might have obtained by sale through such price fixing is clearly not a matter for compensation. Exercise of governmental powers in carrying on the war should not be conceived as preceding from water-tight compartments, price fixing from one box, and requisitioning from a separate one. The war increment is a value for which the owner should not be entitled to compensation when the Government acts by eminent domain. Of the dissent in *Denver v. Union Water Co.* (245 U. S., 178, 195). An analogy is furnished by *United States v. Candler-Dunbar Water Power Co.* (229 U. S., 53), where the water-power company sought to recover as one element of just compensation for riparian land, its value as a factory site in connection with water power. It was held that the water power was subject to destruction without compensation by governmental improvement of navigable waters, and though this power over navigation had not been previously exercised, no compensation should be allowed therefor when the land was taken (p. 76).

It is interesting to note that the British Defense of the Realm Regulations (consolidated and revised to June 30, 1918, ed. Pulling) state with reference to award of compensation for war materials, food, forage, and stores requisitioned as follows (sec.

2B): "In determining such price regard need not be had to the market price * * *." (See also sec. 2F 2JJ.) The English are not controlled by our constitutional notions as to what constitutes a "taking," and have been accustomed to allow for elements not considered subject of compensation in the United States. (Sedgwick, Damages, 9th ed., ch. XLVI.)

One legal principle therefore, for which the department should stand until thoroughly tested in the courts is that compensation should not be awarded on the basis of war prices, called by some market value. I have been considering primarily so far property in existence before the war, necessary to its conduct, as to which prices suddenly jumped during the war and are generally expected to abate thereafter.

As to property produced just before the requisition, say a quantity of rifles, or a ship, at the prevailing prices of iron and wood fixed by the Government, if the methods of production are not wasteful or fraudulent, it is difficult to see how the producer may be awarded less than his cost. Such property may indeed be identical in all physical aspects with property which existed before the war. Theoretically the value of the like property may be the same. The actual standards of compensation for newly produced goods will be subsequently considered. Enough has been said to show that market prices of the product need not be the criterion.

If the war prices of 1917 do not furnish the basis of determination of value of property existing before the war under fair market conditions, what principle is to be followed? How may the elements of abnormality be removed? (1) Should the prices of the period immediately preceding the war be taken; or (2) the average price of a number of prewar years; or (3) the average prewar and war years; or (4) should account be taken of the trend of prices before the war and an addition made for the average increase during the war; or (5) should the "market" prices be disregarded altogether and some other standard or standards be adopted?

It must be remembered, in striving to reach value under the hypothetical "fair market conditions," that there is no single formula which will accomplish the result. Each case rests on its own facts. A test that may be helpful in one matter may be absurd as applied to another.

1. The first method (prewar prices) is suggested by the case of *United States v. Inlets* (Fed. Cas., 1544, Iowa; 26, Fed. Cas., 490), a proceeding to condemn land. At the time of the trial the panic of 1873 had radically depressed real estate values. The trial court held that the jury should allow "the full and fair market value at the time of taking—at this present time," and said with the expressed approval of the district attorney (p. 494):

"While the language of the law or its construction is that its value must be fixed as at the time of its appropriation or taking of the property, still it is not right that you should subject these parties to the consequences of what we all suppose to be a temporary depression and stringency of the money market. If this were permitted, it might have a great effect upon the value of this property. Therefore, you will not take into consideration the state of affairs existing to-day, but of, say two months ago, relieving it from the pressure which may now be upon it."

The case was taken to the Supreme Court on other issues, *Sub nom Kohl v. United States* (91 U. S. 367), where the judgment below was affirmed. An analogous case is *McQuaig v. Quaker City Insurance Co.* (18 Up. Can. Q. B. Rep., 130), an action on an insurance policy which provided that the damage should be estimated "according to the true actual cash value of the said property at the time the same shall happen." The defendant in the lower court requested an instruction that the estimate of the actual cash value at the time of loss should be diminished "in consequence of any circumstances that might however recently before the loss have depressed the market value of steamers." The refusal of the trial court to so correct the jury was held correct.

The cases are the converse of the Luckenbach case now pending in the Court of Claims. If recovery is not to be diminished for a temporary depression in prices, it should not be increased for a temporary sudden rise. Following the analogy in the case of ships existing in 1914, the prices prevailing in the winter of 1914 and 1915, before the submarine campaign began, may be regarded as the measure of the value under fair market conditions in 1918.

2. To take the average prices over a period of prewar years is suggested by the railway control act of March 21, 1918 (Pub. No. 107, 65th Cong.), which prescribes for the use of the carriers taken over as "just compensation an annual sum * * * not exceeding a sum equivalent as nearly as may be to its annual average operating railway income for the three years ending June 30, 1917." This criterion is also in line with the practice adopted in public utility valuation cases, where the cost of reproduction as of a certain day is ascertained by the use of the average prices prevailing over a number of years. It would seem to afford a better standard for the

determination of "normal" value in the ordinary case than the prices at any particular point during the period.

3. A standard which would appeal to most courts and juries as being more just than either of the foregoing is an average of the prices of an equal number of prewar and of war years. Such a criterion is on its face a compromise. The value of an article several years before the war is obviously not the measure of its present worth. It may afford some measure of worth as of a few years after the war. Some compromise, however, must be adopted in order to achieve justice to both parties. Exact justice, unfortunately, is rarely obtainable in a law suit. The courts do not escape the fallibility which inheres in all human institutions. Fair value is an ideal concept in any event; probably never actually existent. The theoretically willing purchaser and the like willing seller have not met in the cases we are considering.

So, in the process of judging present value the average reasonable man can hardly disassociate some of the general increase in prices during the war from the particular article which he is evaluating. The average of prewar and war prices affords a rough measure of allowance for some appreciation during the war, and if it fits in with the other evidence concerning the old tugs in the Luckenbach case may furnish the solution in that case. In my opinion, such an average ought to prove helpful in many cases in arriving at a fair result.

4. Possibly more accurate than the last preceding method, though surely more difficult of application, is to take account of the trend of prices during the prewar period and add a proportional increase at a weighted average of prewar and war years for each year of the war. A variety of systems is in vogue in allowing for a trend of prices. Much depends upon the beginning of the period adopted, and care must be taken to cover a normal period, which must be longer in the case of fluctuating than of stable commodities. Taking a fair prewar period and projecting the curve to the point of time at which the property is requisitioned is not enough in the present cases, however, if we are to allow anything for war increases. The prewar trend may have been actually downward.

If, however, the average yearly increases of the three years previous to the war is added to the 1911 prices so as to give a normal price for 1914, and then the average annual increase of the six-year period from 1911 to 1917 is added for each subsequent year, we reach a result which removes some of the elements of abnormality in 1917 prices. To illustrate, the cost of production of ships may be instanced somewhat as follows:

1912, per dead-weight ton	\$50
1913, per dead-weight ton	50
1914, per dead-weight ton	65
1915, per dead-weight ton	75
1916, per dead-weight ton	150
1917, per dead-weight ton	300

A simple average of the six years brings the result at \$115 a ton. The average yearly increase for the six-year period is about \$40 a ton. If this amount is added for each year subsequent to 1914 we arrive at \$175 as the fair value in 1917. This last method would probably be too complicated to be of practical value in the courts. It might be of use in a conceivable case, where evidence of the price trends is ample and experts seeking to reach true value rather than simply to apply a prior formula are dealing with the situation.

5. As to whether evidence of market prices must be abandoned altogether in favor of some other standard, it would seem that no such absolute general rule can be made. Probably in some cases market prices may be quite disregarded in favor of some other controlling feature; for instance, payment of the cost of production, plus a reasonable profit, may well be the only fair method of compensation for an amount of copper just mined. It would be difficult to apply prewar prices, or any one of the averages above suggested in the case of land condemned in connection with a housing scheme, after a permanent neighboring population had settled down to man a new shipyard. The general consideration against the use of present market prices have been felt by the United States Shipping Board in their cases of commandeered ships; all evidence of war and prewar "market" values has been utterly disregarded, and in lieu thereof, present cost of reproduction less depreciation has apparently been substituted as the sole criterion.

COST OF REPRODUCTION LESS DEPRECIATION.

As I understand it, the method of valuation followed by the Ocean Advisory Committee of the United States Shipping Board, and approved by the Shipping Board, is to take the Fleet Corporation figures of cost of reproducing the ship new and discount

such figures by an amount representing the depreciation of the vessel in its actual condition. The Fleet Corporation costs are taken as of the date when title to the ship is lost by the owner. Thus, if the Fleet Corporation's costs in August, 1917, were \$140 per dead-weight ton; in November \$200 and December \$325 per ton for a ship whose use is requisitioned in August, 1917, if sunk in August, 1917, \$140 would be awarded; if sunk in November \$200 would be awarded; and if sunk in December, or title taken in that month, \$235 would be the amount. If, in order to get troops overseas, the Government was willing to pay triple wages for Sunday work and overtime, and grant large bonuses for immediate delivery of materials, and build additional shipyards, no deduction is made. I do not know what part, if any, of the cost of construction of new shipyards or of overhead charges are allowed. Steel billets, whose average price in 1913 was \$25.60 per gross ton, and in 1914, \$20.08, rose in June and July, 1917, to \$95 a ton. On October 11, 1917, the War Industries Board fixed the price at \$47.50 per ton. I suppose cost of production of ships varied accordingly.

This is not a complete, and therefore may not be a fair, picture of the Shipping Board methods of evaluation. Further light is afforded by the illustrative cases cited in the Shipping Board's letter of November 23. With reference to the *Cubore*, a vessel built in 1917 at a cost of \$1,111,819.88, including 15 per cent builder's profits, the estimated cost of replacement was \$2,416,100, equal to \$207 per dead-weight ton. Allowing one-half of 5 per cent for depreciation, the committee recommended an award of \$2,350,000, more than double the cost of construction the year before.

As counsel for the Shipping Board points out in his letters of August 1 and November 23, there are decided advantages in the adoption of the present cost of reproduction less depreciation standard. By the use of the Fleet Corporation's figures it is fairly certain of application. Cost of reproduction figures, moreover, were somewhat less than the speculative market prices of the period. It may be, as Mr. Burling says, that since the venture is now upon legal ground, present cost of reproduction is as much of a departure from the familiar rule as it may be reasonable to expect the courts to adopt.

The proposition, however, that present cost of reproduction is a proper standard because the owner expects to replace his property, and is to be awarded an amount sufficient for him to do so, seems to be unsound. A homestead which is condemned can not be replaced. The tenant dispossessed in *Lawrence v. Boston* (119 Mass., 126), who had built up a valuable retail business in a favorable location, can not be awarded damages on the theory that he will be able to take the amount of his award and secure another lease with as favorable business opportunities as he has lost. Evidence of any value peculiar to the owner must be disregarded. *United States v. Honolulu Plantation Co.* (122 Fed., 581).

Any loss resulting to the owner from the taking of his property by eminent domain incident to the fact that he may have to pay more than he is awarded in order to get like property in the future must be suffered. Such a "servitude" is inherent in the nature of the ownership of property which is always subject to expropriation by the sovereign. It is precisely because the sovereign may not be able to purchase at a fair price the desired property from the owner or a substitute from others that the dominant power of eminent domain exists.

The nature of the inquiry must not be forgotten. Cost of reproduction like market value is not to be made an end in itself. Cost of reproduction less depreciation is an excellent guide to value if conditions of free competition exist where the property valued may be easily produced and sold. Under such conditions value tends to conform to the cost of reproduction. In so far as normal conditions of reproduction do not exist, the standard loses its efficiency. An excessive bid of monopolist contractor would hardly be accepted as final. Fair competition bidding, where the cost of reproduction test is used, is assumed. *Knoxville v. Water Co.* (212 U. S., i. 9); *Denver v. Denver Union Water Co.* (246 U. S., 178, 183). If reproduction costs are determined by temporary national necessities which induce any outlay whatsoever, in order to get results not for commercial purposes but for the conduct of the war, they can not be said to be conclusive of "fair value." If the abnormalities in market prices are to be eliminated, it would seem that abnormalities in cost of reproduction should be treated in like manner.

Further examples may be cited to show that present cost of reproduction can not be used as the solvent formula for all cases. Obviously, the standard can not be applied to land. Again as to ships. If the situation in this country is that there are no ship-building facilities and British ships are available in peace times on the open market at low figures, say \$45 a ton, the cost of reproducing a ship seized in our ports would hardly be said to be reflected by cost to reproduce the ship at the time in this country.

It is not meant to indicate that we should close our eyes altogether to evidence of cost of reproduction less depreciation. The evidence may be one of the circumstances

of the case, and if market prices are not available at all maybe the factor of prime importance. If there is no fair evidence of market prices whatsoever, and we have accurate testimony of cost of reproduction, the problem would be to remove the elements of abnormality in such costs. As to property in existence before the war, such as in the Luckenbach case, as average prewar cost would probably be a fair method of fixing just compensation. It may be also that particular elements of abnormality may be isolated, such as excessive labor, expenses due to the war necessities alone, or prices of steel and wood in excess of those fixed by the War Industries Board, in which cost of reproduction with such element eliminated approaches the fair or normal figures that are usable.

The public utility cases suggest the use of some method of averaging. The authorities frequently cite cases on valuation for rate making purposes and for purposes of compensation indiscriminately. *Reagan v. Farmers Loan & Trust Co.* (154 U. S., 362, 410); *New York v. Sage* (239 U. S., 57, 62); *Omaha v. Omaha Water Co.* (218 U. S., 180, 202, 203). The standard of valuation commonly adopted for rate-making purposes is cost of production less depreciation. *Wilcox v. Consolidated Gas Co.* (212 U. S., 19); *Cedar Rapids Gas Co. v. Cedar Rapids* (223 U. S., 655); *Denver v. Denver Union Water Co.* (246 U. S., 178). There are difficulties of theory and of practice in application of the standard in rate cases (Whitten, *Fair Value for Rate Purposes*, 27 *Harv. L. Rev.*, 419; Hals, *The Supreme Court's Ambiguous Use of Value in Rate Cases*, 18 *Col. L. Rev.*, 208; Whitten, *Valuation of Public Service Corporations*, vol. 1 and 2), and the Supreme Court has limited the rule in important aspects. *Des Moines Gas Co. v. Des Moines* (238 U. S., 153, 171, 172). But the standard of cost of reproduction less depreciation is commonly adopted for rate-making purposes and almost uniformly normal unit prices of materials are taken rather than the prices prevailing at any particular moment. Thus, in a number of public-utility valuation cases, which have arisen since the war, the war prices of materials have been rejected and the normal cost has been ascertained by averaging the prices over a period of normal years. The Interstate Commerce Commission in a valuation proceeding under the act of March 1, 1913 (37 Stat., 701), said in justification of its practice in that regard (*Winston-Salem Southbound R. R. Co.*, 1 *Val. rep. I. C. C.*, 187, 192, 193):

We can not shut our eyes to the fact that the effect of the breaking out of the European war was to demoralize the markets for labor and material, so that prices current on that precise date, June 30, 1915, or over a period of time which would reflect the effect of a war has largely monopolized the labor and material market to the exclusion of private industry, can not in any sense be said to represent normal or fair value.

The holdings in a number of recent public utility cases cited in the footnote are reflected in a headnote in an "Annotation on Valuation" in *Public Utility Report Anno.*, 1918, p. 248, as follows:

"b. Ascertainment of reproduction cost—the reproduction value of a utility plant based upon prevailing abnormal high prices of labor and materials should not be regarded in arriving at the value of the plant for rate making. *Re Light, Fuel and P. Co.* (W. Va.) Case Nos. 554, 555, Dec. 1, 1917."

The analogy of the public utility cases, where property is valued for rate making purposes, can not be pushed too far, for, as the cases cited in the footnote plainly say, rates can not vary from day to day. At the same time it is settled that the utility is entitled to earn a reasonable rate upon present value. (Minnesota rate cases, 230 U. S. 352, 434; and rates can be changed every few months.)

Although the particular method of ascertaining normal value by averaging prewar costs used in the public-utility cases seems to be not as fair in the Luckenbach case, as averaging war with the prewar costs, and the method of averaging may be quite unjust as applied to property just produced, the public-utility rate cases are very persuasive that a "normal" cost of reproduction rather than the cost at a precise amount during the war, should be used.

ACTUAL COST TO THE OWNER.

The actual outlay of the owner is usually one of the elements to be considered. *The Packet Habana* (169, U. S. 453). The inquiry is as to what the owner has lost, not what the taker has gained. *Boston Chamber of Commerce v. Boston* (217 U. S. 189, 195); *United States v. Chandler-Dunbar Water Power Co.* (229 U. S. 53, 76). Reimbursement to the owner of his actual outlay, again, can not be considered the sole test. The price may have been speculative and the bargain a good or bad one. Subsequent appreciation or depreciation may have occurred.

If the outlay is recent, however, and the normality of the price paid can be judged as well as the elements of appreciation and depreciation thereafter, the owner's cost is

an important criterion of valuation. Speculative prices paid by the owner, even though recent, should, of course, not be reimbursed. During 1917 contracts for unfinished ships passed from hand to hand at enormous profits. Men speculated in turning over the contract at still higher prices, and such transactions can not be made the lever with which to raise actual values. If, however, property is finished or uncompleted state had been produced under fair condition, it is difficult to see how the owner can be awarded a compensation less than his costs plus a reasonable profit. In the case of the *Cubor*, supra, this would be something more than \$1,111,819.88.

This may result if awarding A more than B for identical pieces of property. The article recently manufactured may be indistinguishable from the sister commodity existing before the war. If the proceeding to award damages is in rem, how can such different valuation be fixed? We need not flinch in answering with Mr. Justice Holmes. (*Boston Chamber of Commerce v. Boston*, 217 U. S. 189, 195):

"It (the Constitution) merely requires that an owner of property should be paid for what is taken from him. It deals with persons, not tracts of land."

The compensation goes to the owner. That is personal. In ascertaining justness of the compensation, there are two parties to the equation to be considered. The fair value under fair market conditions is as much as the condemnor ordinarily should pay, and may be ample to compensate an owner who acquired his property at loss, but insufficient to compensate an owner who actually and fairly paid out more.

So with many species of recently produced property, I would apply the present British rule in determining compensation for war material, food, etc., requisitioned. Defense of the Realm Regulations, Consolidated and Revised to June 30, 1918:

"Sec. 2B. * * *. In determining such price regard need not be had to the market price but shall be had--

"(A) If the goods are acquired from the grower or producer thereof, to the cost of production and to the rate of profit usually earned by him in respect of similar goods before the war and to whether such rate was unreasonable or excessive, and to any other circumstances of the case;

"(B) If the goods are acquired from any person other than the grower or producer thereof, to the price paid by such person for the goods and to whether such price was unreasonable or excessive, and to the rate of profit usually earned in respect of the sale of similar goods before the war, and to whether such rate or profit was unreasonable or excessive, and to any other circumstances of the case; so, however, that if the person from whom the goods are acquired, himself acquired the goods otherwise in the usual course of his business, no allowance, or an allowance at a reduced rate, on account of profit shall be made:

"Provided that where by virtue of these regulations or any order made thereunder the sale of the goods at a price above any price fixed thereunder is prohibitive the price assessed under the regulation shall not exceed the price as fixed.

"2F (3) Such compensation shall be paid for any article or stock so requisitioned as shall, in default of agreement, be determined by the arbitration of a single arbitrator appointed in manner provided by the order; but in determining the amount of the compensation the arbitrator shall have regard to the cost of production of the article and to the allowance of a reasonable profit, without necessarily taking into consideration the market price of the article at the time.

"2JJ (5) * * * in determining the amount of the compensation the arbitrator shall have regard to the age and condition of the horse or vehicle, to the allowance of a reasonable profit on the price, if any, paid by the person from whom the same is taken, and to any other circumstance without necessarily taking into consideration the market price at the time."

A variation of the method which seeks to reimburse the owner for what he has lost may be mentioned. If a ship is taken on January 1, 1918, the owner loses the value of the ship when normal conditions return, say, in three years, plus his earnings during the three years period, properly discounted. Shipping men have a fair concurrence of opinion as to what ships will be worth in 1921. The rates of return meanwhile may be figured according to the Shipping Board schedule. Indeed, present rates on ships constructed at the prevailing high costs must be largely based upon an estimate of the future worth when normal conditions return. The shipowner who builds or purchases at the 1917 prices must as a matter of proper accounting whether or not he makes a corresponding actual profit during the abnormal years, write off sufficient for such years so that the value on his books corresponds to the actual value when normal conditions return. As a practical matter, in the cases of ships this method may not prove useful because the present rates authorized by the Shipping Board amount to about 28 per cent on a valuation of \$175 a ton.

CONCLUSION.

There can be no single exclusive standard. Exceptional circumstances will modify the most carefully guarded rule. Evidence of market value, owners' outlay, cost of reproduction, among others, "are all matters for consideration and are to be given such weight as may be just and right in each case." *Smyth v. Ames* (169 U. S., 466, 546, and 547); *Minnesota rate cases* (230 U. S., 352, 435). As said in the latter case (p. 434):

"The ascertainment of that value is not controlled by artificial rules. It is not a matter of formulas, but there must be a reasonable judgment, having its basis in a popular consideration of all relevant facts."

The courts have consistently realized the truth of the remarks quoted and have refused to be committed to any single exclusive criterion for all cases. *Boom Co. v. Patterson* (97 U. S., 403, 407).

The department should do likewise, especially since we do not yet know the peculiar problem which may have arisen in various branches of the War and Navy Departments. I suggest that personal contact be established with the agencies which have been and are awarding compensation for requisitioned property. This can be done without interfering with their efficient functioning; possibly they may be aided; and soon we can formulate fairly precise rules to represent the views of the department as to such class of cases.

On the main general problem much remains to be done by way of briefing authorities and investigating the actual practice of the various governmental bureaus. Many incidental minor problems also are bound to arise. For instance, how much.

JANUARY 8, 1919.

DEAR MR. TODD: I return herewith the report on principles for determining just compensation for requisitioned property which I handed to you on November 28, 1918.

Further examination of authorities and reflection has strengthened my opinion that although valuation of property requisitioned may be made as of the day and place of the taking, prevailing war prices of property similar to that requisitioned during the war are not to be taken as the criterion. Such prices were temporary, fluctuating, speculative, and determined largely by the necessities of the Government. Such prices do not reflect actual value under fair market conditions.

Similarly, abnormal cost of production figures, or abnormal cost of reproduction less depreciation as of a certain day during the war, should not be the formula for measuring value.

Valuation is essentially a matter of judging on the facts of each case. Consequently it is best done by men familiar with the subject matter. In the process of judging many items of evidence must be considered. Ultimately, however, it seems to me that a working theory based on a principle of law must be adopted as to the price test of value. I submit that this working theory for personal property which was in existence before the war, is not in its nature consumable, should be that indicated on pages 12 and 13 of the accompanying memorandum, namely, the value of the property, under normal conditions—that is, before the war—plus a reasonable rental during the abnormal period. The owner of a ship, for instance, is deprived by "the taking," of the value of the vessel when normal conditions return, plus a reasonable rental, up to that time. The Government has power in time of war to fix the rate of return of private vessels; to require more than reasonable return is to take advantage of the necessities of the Government.

Consumable property such as grain, produced during the war, under fair business management, should be valued in a different way. As to this character of property, the British defense of the realm regulations afford the proper test, which, shortly stated, is the cost of production plus a reasonable profit.

These working tests seem to me fair to the owner and fair to the Government. All other matters proper to be considered, such as cost of production if recent, normal cost of reproduction, less depreciation, etc., may be used as a matter of scaling up or down.

NOTES.

1. *Eminent domain—general principles.*—*Monongahela Navigation Co. v. United States*, 148 U. S. 312.

Probably leading case defining "just compensation." *Searl v. School District* (133 U. S. 553)—School building.

C., B. & Q. R. R. Co. v. Chicago (166 U. S. 226)—Street across tracks.

- Bauman v. Ross** (167 U. S. 548)—Highway in District of Columbia.
Boom Co. v. Patterson (98 U. S. 403)—Land on island of Mississippi River.
Bridge Co. v. United States (105 U. S. 470)—Alteration of bridge.
Kerr v. Park Commissioners (117 U. S. 379)—Land for park purposes.
Shoemaker v. United States (147 U. S. 282)—Land for park in District of Columbia.
United States v. Chandler-Dunbar Co. (229 U. S. 53)—Upland bordering on navigable river.—“Strategic value.”
Boston Chamber of Commerce v. Boston (217 U. S. 189).
New York v. Sage (239 U. S. 57)—Land for reservoir.
McGovern v. New York (229 U. S. 363)—Land for water supply.
McCoy v. Union Elevated R. R. (247 U. S. 354).—Damages.
United States v. First National Bank (250 Fed. 299).—Land for military purposes.
Nichols on Eminent Domain, 2d ed., secs. 124, 208, 217, 218, 222, 223, 445, 446, 454, 456.
Lewis on Eminent Domain, 3d ed., sec. 8, p. 19; secs. 684, 706, 727.
Sedgwick, Damages, 9th ed., secs. 243, 244, 245, 249, 250, 636, 712, 1179.
2. Damages in Ship Cases.—Valuation of Ships.—Requisition by British Government.
Apollon, 9 Wheat 361.—Seizure.
Ella Warley, Blatchf. Prize Cases 204.—Civil War.
Kia Ora, 246 Fed. 143.—Salvage.
Packet Havana, 189 U. S. 433.—Prize. (See cases in Government brief.)
Melderskin, 249 Fed. 776.—Salvage.
Leonard v. Whipple (19 Fed. 547).—Ship collision.
Deep Sea Hydraulic Dredging Co. v. Alexandria (40 Fed. 697).—Ship collision.
3. Valuation for Rate Making Purposes.
Reagan v. Farmers' Loan & Trust Co. (154 U. S. 362).—Freight and passenger rates.
Corington, etc. Turnpike Co. v. Sandford (164 U. S. 578).—Tolls.
Smyth v. Amos (169 U. S. 466).—Freight rates.
San Diego Land Co. v. National City (174 U. S. 739).—Water rates.
San Diego Land and Town Co. v. Jasper (189 U. S. 439).—Water rates.
Stanislaus County v. San Joaquin C. & I. Co. (192 U. S. 201).—Water rates.
Knorrville v. Water Co. (212 U. S. 1).
Willcox v. Consolidated Gas Co. (212 U. S. 19).
Cedar Rapids Gas Co. v. Cedar Rapids (223 U. S. 635).
Minnesota Rate Cases, 230 U. S. 352.
Missouri Rate Cases, 230 U. S. 474.
Des Moines Gas Co. v. Des Moines (238 U. S. 153).
Darnell v. Edwards (244 U. S. 564).
Denver v. Denver Union Water Co. (246 U. S. 178).
Oshkosh Waterworks Co. v. Railroad Commission (161 Wis. 122, L. R. S. 1916 F. 592).
 (Long annotation on fundamental principles of valuation of public service property).
Brunswick Water District v. Maine Water Co. (99 Maine 371).
Kennebec Water District v. Waterville (97 Maine 185).
Eureka Water Co., 4 Cal. R. C. R. 466.

Mr. GILLEN. I would like to put into the record in reference to questions asked me this morning—for it seems to me it might well be put in at this place—what, on the basis of \$175 per dead-weight ton, it would cost the different ports of the United States to pay 10 per cent down and absorb this fleet, and to show you the way it would work out and what the communities could do. For instance, in the North Atlantic district, if New York would absorb 768 ships, which are allocated to operators in New York, it would cost \$930,000,000. That would mean that the city of New York and the State of New York—this community—would have to pay \$93,000,000, would have to put that amount in ship securities, if they absorbed their share. Likewise Norfolk would have to put in \$1,500,000 in the same way; and Baltimore would have to put in \$4,775,000, and so on. In other words, the North Atlantic district, taking New York, Baltimore, Norfolk, Philadelphia, Boston, and Portland, would have to put in, on the basis of 10 per cent, \$110,000,000, and they could absorb that without difficulty if the price was right. And on a \$125 basis it would be very much less.

Take the South Atlantic district, Savannah, Jacksonville, Charleston and Wilmington, and taking the States that those cities are located in as the basis for investment, would have to raise \$6,988,000.

As to the Gulf district, Galveston, New Orleans, Mobile, Pensacola, Tampa, and Gulfport, would have to raise only \$14,220,000.

As to the Pacific district, San Francisco, Seattle, Portland, Tacoma, and Los Angeles, would have to raise \$19,000,000.

At this point I desire to file as an exhibit the statement which I now hand to the official reporter, to be made a part of your record.

The CHAIRMAN. That may be done.

(The paper referred to is here copied in full, as follows:)

Distribution of United States Shipping Board steel cargo and passenger ships by ports and operators as of June 30, 1920.

Port.	Operators berthing out of ports.	Ships.	Dead-weight tonnage.	Operators with home offices in port.	Ships allocated.	Dead-weight tonnage.	Value at \$1.75 per dead-weight tonnage.	Ten per cent of value.
NORTH ATLANTIC DISTRICT.								
New York.....	58	273	2,043,545	91	768	5,317,944	\$930,640,200	\$93,064,020
Norfolk.....	67	133	830,600	2	18	91,294	15,976,450	1,597,645
Baltimore.....	41	101	734,896	11	41	272,875	47,753,125	4,775,312
Philadelphia.....	30	75	520,722	6	39	227,588	39,827,900	3,982,790
Boston.....	9	28	149,550	12	93	394,253	68,994,275	6,899,427
Portland, Me.....	4	5	24,690					
Total.....		615	4,304,003	122	959	6,303,954	1,103,191,950	110,319,195
SOUTH ATLANTIC DISTRICT.								
Savannah.....	6	35	243,495	2	30	250,914	43,909,950	4,390,995
Jacksonville.....	5	11	74,591	3	12	77,106	13,493,550	1,349,355
Charleston.....	10	14	83,248	1	6	43,761	7,658,175	765,817
Wilmington.....	2	2	12,825	1	4	27,575	4,825,625	482,562
Total.....		62	414,159	7	52	399,356	69,887,300	6,988,730
GULF DISTRICT.								
Galveston.....	12	43	290,918	6	70	512,444	89,677,700	8,967,770
New Orleans.....	21	95	564,619	3	19	96,107	16,818,725	1,681,872
Mobile.....	7	35	190,169	5	22	129,868	22,726,900	2,272,690
Pensacola.....	4	6	37,832	1	5	29,625	5,184,375	518,437
Tampa.....	2	3	16,855	1	6	44,545	7,795,375	779,537
Gulf Port.....	2	2	11,875					
Total.....		184	1,112,268	16	122	812,589	142,203,075	14,220,307
PACIFIC DISTRICT.								
San Francisco.....	12	59	535,971	11	83	689,817	120,717,975	12,071,797
Seattle.....	8	27	227,310	3	36	325,582	56,976,850	5,697,685
Portland.....	6	23	195,100	1	5	44,600	7,805,000	780,500
Tacoma.....	4	4	26,410					
Los Angeles.....				1	5	44,000	7,700,000	770,000
Total.....		113	984,791	16	129	1,103,999	193,199,825	19,319,982
INTERIOR.								
Cincinnati.....				1	1	4,050	708,750	70,875
Coastwise.....		74	347,666					
Foreign.....		63	411,068					
Unallocated.....		121	801,122					
Unspecified ports.....		4	23,195					
Grand total.....		1,236	8,398,272	162	1,263	8,623,948	1,509,190,900	150,919,090

Ninety-seven steel, 10,000 tons and over; 152 steel, 9,000 to 10,000 tons; 264 steel, 8,000 to 9,000 tons; 143 steel, 7,000 to 8,000 tons; 177 steel, 6,000 to 7,000 tons; 145 steel, 5,000 to 6,000 tons; 259 steel, 4,000 to 5,000 tons.

Mr. GILLEN. If you reduce that price to \$125 a ton you can see that so far as the base investment necessary for the first payment on 1,236 of our ships, is concerned, would be reduced. And you can see according to this statement that the first payment on 1,236 of our ships would be \$150,000,000, distributed over the port States of the United States. And that amount of money, in my judgment, is available, if the price of the ships is right. In other words, I believe that if the price of the ships were right, that these port towns and the banks and the men interested would get out and raise the necessary sum, because \$150,000,000 is not a large sum to raise in the United States, as based on 10 per cent of the purchase of those ships. It is the things that go along with it, but the base price of 10 per cent is not a large amount.

The CHAIRMAN. You said that they had 176 operators, and that 50 were enough.

Mr. GILLEN. Yes, sir.

The CHAIRMAN. Were ships allocated during your connection with the Shipping Board by Judge Payne, or didn't he have anything to do with the allocation of ships?

Mr. GILLEN. The allocation of ships, I believe, was under the control of Mr. Donald. There was so much work there that the Division of Operations, the Director of Operations, would have charge of it. He would go up and see one of the commissioners, and when a commissioner would say allocate, then that commissioner would have a resolution prepared and put through the board. From the fact that the commissioner indorsed it, it would go through.

The CHAIRMAN. You personally made no investigation of allocation?

Mr. GILLEN. No, sir; but I did make an investigation as to the number of operators. If you will make a notation to call Gen. Black, in Washington, he will give you an analysis of the number of operators, number of ships, each one of them, the port facilities necessary, and the overcharges that are being made at those ports. He has it all worked out in very fine shape.

The CHAIRMAN. Who is he?

Mr. GILLEN. Gen. Black was one of the assistants to the board, and directly under Judge Payne.

The CHAIRMAN. Was he formerly Chief of Engineers of the War Department?

Mr. GILLEN. Yes, sir; that is the Gen. Black. And he is making—

The CHAIRMAN (interposing). He is still in the Shipping Board?

Mr. GILLEN. No, sir; he is in private business there

The CHAIRMAN. Does the summary show what percentage of ships were allocated to firms having previous experience in the shipping business, and what ships the firms that had no previous experience in the operation of ships?

Mr. GILLEN. I do not think it would show that, but it would give you the names of the companies, and by sending out a letter, having your secretary to send out a letter, to each company and asking them to give you the information when they were organized, you could find out. I do not think the board ever asked them.

The CHAIRMAN. The board had no occasion to find out whether a company had had previous experience in the operation of ships?

Mr. GILLEN. Oh, yes.

The CHAIRMAN. Do you know whether they did?

Mr. GILLEN. Yes; they tried to do it. But the Division of Operations was a great unwieldy organization. It has never been organized to this day. I mean by "organized," that it has never been gotten under good control. They have never had a man since Mr. Rossiter—and by the testimony that is here Mr. Rossiter is a big shipping man. Following Mr. Rossiter was John Cushing, who had had considerable experience in ship operations, and following him came Mr. Paul Foley, of the Navy, but he never had had any business experience prior to his taking that job. Mr. Ballen, who committed suicide, and who was the head of the Hamburg-American Line, and a big man of his day, did not have one-tenth the size job that was down there at Washington. In other words, at the present time we have not any business executive in charge of operations.

The CHAIRMAN. And that is one of the important functions being performed by the board, and has been performed during its existence practically, isn't it?

Mr. GILLEN. Yes, sir.

The CHAIRMAN. Are you familiar with the old contract in comparison with the new?

Mr. GILLEN. Not enough to discuss it in detail. I know the basic principles of the old one, the Scott contract, and the basic principles of the new, because I was in on all the discussions. But it is a technical matter to discuss contracts, and unless one made a study of a contract preparatory to discussing it he could not well discuss it. I would not attempt to give you an analysis of it.

The CHAIRMAN. You have had a great deal of experience with manufacturing businesses and manufacturing corporations?

Mr. GILLEN. Yes, sir.

The CHAIRMAN. Would you feel that with the experience you have had along that line it qualifies you to go to the Shipping Board to-morrow and have 15 ships allocated to you for operation?

Mr. GILLEN. Well, that is a very personal question.

The CHAIRMAN. I do not want to make it personal. I will ask you, would you feel that a person who had had experience in business, in manufacturing businesses similar to your experience, would naturally make a success of operating 10 or 15 ships, although having had no previous experience along the shipping line?

Mr. GILLEN. I think as a general proposition all our business men who have had general business experience, could go over into the shipping business, and if they apply to the shipping business the same principles they have applied to their own, to wit (1) get a good ship operator, a man who has grown up in the business, and (2) get a good traffic man who knows freights; and (3) as to the accounting end of it, that is rather easy to fill. I have contented myself with the belief that all businesses are more or less alike, and that a man sitting at the top, as president, and controlling a business in a large way, a large corporation, we will say, if he knows general business principles, he can go out and get specialists, like a general manager of a concern. In great measure it is ability to read a successful business that makes for success.

The CHAIRMAN. While you were assistant to Judge Payne did you have brought to your attention matters referred to the home office

by the Bureau of Investigation, such as overcharges, improper payments, corruption on the part of subordinate officials?

Mr. GILLEN. I guess I was a friend at court of the plant protection department. In other words, Mr. Meehan came to me shortly after he came to Washington and told me his story, and I gave him all the moral support I could give him. As to prosecutions, what I said to him on every occasion when he would come to me, was: "Give me less stories, Meehan; get indictments. When are you going to get indictments, indictments?" That was what I was after, because the mere telling of stories was of little value. He was in connection with the accounting department himself, and if he found any errors when he was at work, all he would have to do would be to take it up with the accounting department, and he would work with the accounting department in every case where there was trouble. In other words, he had to work with them in order to get his own records.

The CHAIRMAN. Did you have anything to do with the Hog Island settlement?

Mr. GILLEN. Nothing.

The CHAIRMAN. Can you say whether or not the American International Shipbuilding Corporation at Hog Island was given full profit on 23 ships it did not construct?

Mr. GILLEN. I could not.

The CHAIRMAN. Who settled that, do you know?

Mr. GILLEN. Judge Payne in person. If anybody has made an error in that matter the error would be one of accounting coming up to him. But the judge himself settled that. He gave them the minimum. He allowed the minimum fee which is arranged for in their contract.

The CHAIRMAN. Was profit on ships not constructed a part of their fee in that settlement agreement?

Mr. GILLEN. I do not know anything about it now, and never looked at it, but I would say this: If they had under their contract, materials in the yards which they had handled and taken care of, and if they had partially constructed work there, they would be entitled to a fee on that work, which would be a percentage of the number of ships that that represents. And there was a terrifically large cancellation there. It might be that the percentage will figure out that there were 23 ships; and if it does figure that number out, there is nothing wrong with it.

The CHAIRMAN. You mean if the percentage on the whole cancellation would equal a profit on 23 ships?

Mr. GILLEN. I say if it did that would be correct. On all our settlements we allow that; that is the cancellation charge.

The CHAIRMAN. What do you say in reference to the sales policy of 25 per cent down and balance in five years?

Mr. GILLEN. The complaint I made against that was that it was destroying all the companies who made a contract of that nature with the Emergency Fleet Corporation; because they could not raise, in the American financial markets, nor could they make out of their operations, moneys sufficient to meet the first payment after they had paid their 25 per cent. And that meant if they had to borrow any of the 25 per cent that they put in originally, that they would be over in the hands of the bankers for their next pay-

ment. And that would mean that their 25 per cent would be cut materially. What I thought was that there was only one way to treat that, and that was to get long time payments. So I went up to see Senator Lenroot. There was written in to a bill then, I believe, 5-year mortgages. I went up to see Senator Lenroot and pointed out to him the necessity of getting long term mortgages if they were going to support the situation. And I think the Jones bill was changed from 5 to 15 years.

The CHAIRMAN. During your service there as assistant to Admiral Benson, do you recall any conference convened by him of business men to discuss matters of policy of the Shipping Board?

Mr. GILLEN. There was a great difference of opinion in reference to the sales policy of ships. I represented one side of it, and Commissioner Scott and Judge Payne and Mr. Donald represented another side. In other words, they were the board and I was the special assistant to the chairman. It was my opinion that they were fundamentally wrong on their business policy of the mortgages that were on the ships, and as to terms. I maintained that they never would be able to get a sales policy, outside of the cost, until they came to the fundamental principles of business. From November up to March, they worked on about three or four different sales plans of ships. They had this 25 per cent down and balance in five years, which I was opposed to, as I have stated here. They then worked out a plan where the fellow paid $2\frac{1}{2}$ per cent down and \$5 a month. Under that plan fellows without any money could go and borrow at a bank at $2\frac{1}{2}$ per cent and pay it to the Shipping Board, get a boat, load her with freight, and get the cash from the freight—which was generally from \$150,000 to \$200,000, while his payment would be, say, $2\frac{1}{2}$ per cent on \$2,000,000, which would be \$50,000. Then he would go back and pay his payment off, and have capital to run the boat. He would start out with a capital of anywhere from \$150,000 to \$200,000, out of which he would have to pay expenses of operation. That was quite bitterly contested, and we were able to put that aside.

I recommended that we call the biggest merchandising business men in America down to Washington. Judge Payne left, and it was not done. Admiral Benson came in and the Admiral sent out the notice. We sent out to bring in the men who had done merchandising in large volume in America. I maintained that any business, whether in automobiles or grain or anything else, had to be handled with general principles underlying it. I did not want to have bankers in that session, did not want to have shipbuilders in that session, and did not want to have shipowners in that session. I wanted to get together the best manufacturing and sales brains of the big purchasing companies of America. So we sent to the Ford Motor Car Co. for their sales manager; to the president of the United States Rubber Co.; the president of the biggest grain corporation in America; the president of one of the biggest flour corporations in America; Alexander Legg, of the International Harvester; G. N. Peek, the head of the Moline Plow Co.; Owen Young, head of the General Electric Co. We brought down there about 30 men. Then we put up before them the troubles we were having on sales, and we submitted to them the data we had and the policies that we had been working with.

When those men got there the situation was pointed out to them. They appointed a committee of five—Eugene Myers, then chairman

of the War Finance Board; Alex Legg, Mr. Wells, of Minneapolis; Mr. Young, and I believe Mr. G. N. Peek, head of the Moline Plow Co. They worked two days, and they came in with a proposition that these boats should at least be sold for reproduction cost in America, less depreciation for the time they have been in the water, as against \$225 that they were then holding them for; that they should be sold on terms of 10 per cent down, nothing for two years except interest, and the balance payable over a period of 12 years; that the ships sold to a corporation should be sold to one which held nothing else but Shipping Board property, so that if any profits came in they would remain in the corporation, and the only profits that would be allowed to be withdrawn from the corporation, until the mortgage was satisfied, would be 15 per cent on the 10 per cent of accretions, after the obligations of the sales contract had been completed. That was adopted and put into effect.

The CHAIRMAN. Have they sold any ships on that plan?

Mr. GILLEN. Yes, sir; they sold some but the price was too high. But they have the machinery, mark you, to sell and protect, which they never had before. Now it is a question of price. Those men were informed by us, from all the records we had, of prices, but prices had not dropped then, but that was a little bit below what it cost to produce in American shipyards, and they were of the opinion that we ought to get a little bit below the cost to reproduce in American shipyards, because the Government owed it to itself to sell; it had the goods and ought to sell a little bit below reproduction cost in order to get rid of the goods.

I now submit for the record the report of that committee, dated May 3, 1920.

WAR FINANCE CORPORATION,
Washington, May 3, 1920.

Rear Admiral WILLIAM S. BENSON,
Chairman United States Shipping Board, Washington, D. C.

DEAR SIR: The committee appointed at the meeting on April 15, 1920, has instructed me to submit the following:

Your committee understands that a decision has been reached to sell the ships, now owned and under construction by the United States Shipping Board, and furthermore, that the resolution as passed at the meeting of the general committee stated that the ships should "be sold at such prices and on such terms as will encourage the investment by shipping interests to the end that the Merchant Marine of the United States may be firmly established."

Your committee understands that it was appointed for the purpose of making informal suggestions of general terms upon which it would seem appropriate to dispose of the ships.

Your committee understands that its suggestions concern only the sale of ships that the Shipping Board considers desirable to be retained for the permanent American merchant marine; and further that it is not expected to deal with special phases of the shipping problem such as are involved in the question of maintaining special trade routes which may be desirable in the national interest.

With regard to prices, the committee recommends that (1) as the ships were built as a war measure and in a period of abnormal and excessive cost, due to war conditions and to the fact that the industry had to be built up as a substantially new industry in this country, the abnormal cost should be absorbed as war waste, and that the prices should be fixed upon the basis of present prices for reproductions, considering both foreign and domestic production costs; and that (2) the prices should be determined in a manner to assure stability, either by fixing prices for ships of given types and tonnages which could be maintained over a period sufficiently long to give buyers the assurance that after they have contracted for purchases of ships they will not be placed at a disadvantage by subsequent reduction in prices, or by fixing prices with definite protection to buyers over a definite period, such protection to consist of an

arrangement under careful safe guards for price readjustment should it subsequently prove necessary or desirable for the Shipping Board to reduce prices.

With regard to terms, your committee suggest as follows:

Ten per cent cash payable on delivery of the ship, with payments at the rate of 5 per cent semiannually for three years; the balance of 40 per cent to be paid in by the end of the third year; the balance of 60 per cent, to be payable in 12 monthly installments of 5 per cent each. In connection with these terms, which have been arrived at with a view to making it possible under present financial conditions for buyers to arrange the necessary financing, your committee recommends that purchasers be required to render carefully supervised and audited accounts of operations and earnings on these ships in such a way as seems well to your board. Out of the earnings, after providing for the interest, taxes, and current installment payments on account of principal, an adequate return on the actual capital invested should be allowed the purchasers; after such adequate return on the investment at a rate to be fixed by your board, surplus net earnings should be applied to additional payments of the installments of principal. The committee would consider it preferable to have the anticipation of such installments, if any, applicable to the last installment due, but feels that a certain amount of discretion should be exercised upon this point by your board, and it may be advisable to have this clause contain some elements of elasticity so that anticipated installments may be in whole or in part applied to installments falling due in a period of possible business depression.

The committee recommends that interest be charged at the rate of 6 per cent per annum, and the Shipping Board should have full protection by insurance on all marine risks and fire. Title should remain in the United States Government, with proper protection to it by purchaser's bond or otherwise, until a proportion of the total principal amount of the purchase price, to be fixed in the discretion of your board, shall have been paid over, after which it would appear proper to pass the title and take a first lien with proper safeguards on the vessel as security in the legal form suitable for such business.

The committee suggest that a discount of 5 per cent for cash payment in full on the delivery of the ship be allowed. In cases where cash is not paid in full on delivery of the ship, the committee suggest the buyer be given the right of a cash discount of 2½ per cent in case of full payment for the ship at any time within five years from the date of delivery. It appears to the committee that in case of default of principal or interest, the Government should have the right immediately to repossess any ships sold under a contract, and the Government should have the right to resell such ships as may be taken over at public or private sale, the net surplus, if any, after deduction of all indebtedness, to be paid to the obligor.

Your committee suggests that in view of the small cash payments required under the above recommendations, the board use careful discrimination as to the responsibility of purchasers whether the purchasers be large or small. The committee ventures to emphasize the point of "responsibility" of the purchasers because the committee feels that in a considerable degree methods which restrict sales to responsible parties will give greater confidence to the class of buyers who desire to go into the shipping business in a substantial and permanent manner. In using the word "responsibility" the committee has in mind not only the character and resources of the parties concerned, but also their ability to handle the business competently and efficiently. Smaller concerns may be as responsible for moderate commitments as larger concerns would be for larger commitments.

Your committee suggests that parties making purchase contracts should be protected against unequal competition from operating contracts upon unduly easy terms in connection with ships still unsold.

In view of the reasonable terms contained in these recommendations it would seem that a correspondingly strict enforcement should be observed in requiring exact compliance with all agreements and promptness in connection with payments of interest and principal due the United States Government, and that this should be made clear to purchasers.

The committee, furthermore, suggests that the Shipping Board should keep itself prepared to recommend to Congress such legislation as may prove necessary from time to time to maintain American shipping on a sound internationally competitive basis, and to foster the development of bunkering, marine insurance, repair facilities, port facilities, and the establishment of American agencies in foreign ports, which may promote the permanent interests of the American merchant marine. In connection with this purpose your committee suggests that the Shipping Board establish and maintain a comprehensive continuous survey of the conditions governing the operation of its vessels.

In conclusion, your committee suggests that it would seem proper in view of that fact that the ships constitute a capital asset of the United States Government; that the funds received on account of repayment of principal should be applied to the redemption, at the market prices, of Liberty loan bonds or Victory loan notes. Should your board have occasion to recommend legislation to Congress, your committee suggests that you include a recommendation to this effect.

Yours, very truly,

EUGENE MEYER, Jr., *Chairman*.

The CHAIRMAN. Haven't you the information from which to tell us the name of this single tanker case that was not adjusted? Can't you tell us what company it was?

Mr. GILLEN. Do you mean the *Wilhelm Jebesen* case?

The CHAIRMAN. Wasn't there one tanker case that you said was not settled on the doctrine of \$4.15?

Mr. GILLEN. I will try to get that information for you.

The CHAIRMAN. All right, you may proceed.

Mr. GILLEN. The tanker cases is the next matter you want, isn't it?

The CHAIRMAN. Yes.

Mr. GILLEN. I had nothing to do with the division of operations, but at times matters would come up, and if they were important I would get information to straighten out the situation. As special assistant to Judge Payne and Admiral Benson, I attended the meetings of the trustees and the Shipping Board, was at many of their sessions. We had what was called a Tuesday morning conference, organized by Judge Payne, at which conference the heads of divisions met with the commissioners, and a report would be given at that meeting on the conditions of the different departments. Some time in November, Capt. Paul Foley, in charge of the tanker division, came down and made his report on the tanker division. And from time to time, until he became chief of operations, he would report on the oil situation.

The reports at no time gave evidence of anything being wrong in the tanker division. But along in the early part of May at least three different men, representing oil companies, came to my office and bitterly complained that their companies were being unjustly treated in reference to use of the tankers belonging to the fleet. I took the matter up with Admiral Benson. I then made a request upon Capt. Foley, who was chief in charge of operations and had the tanker division under him, to give me a chart of the tankers. He said he had no chart of the tankers. I then drafted a form to show where our tankers were, and who had them, and where they were, as I said, and whether they were in Government use or in semi-Government use, or private use, and the date of the charters and the date of expirations.

It took about 10 days for the division to bring that information to me. At the end of that time I was able to make a chart of the situation, and I had it drafted as of May 24, 1920. It showed that we then had in operation 54 tankers, 33 of them in Government service. The Government service consisted of—

(a) Steamers engaged exclusively in transporting crude oil coastwise for conversion into fuel oil for account of United States Shipping Board (Standard Oil Co. deducts from deliveries of crude oil by these tankers equivalent in transportation of fuel oil delivered by West

India Co. to Panama Canal; therefore, two of these tankers are for account of the Panama Canal).

(b) Next were steamers engaged in making deliveries of fuel oil and gasoline under Navy Department contracts.

(c) Next were steamers engaged in making delivery under War Department contracts.

(d) And lastly, steamers engaged in transporting fuel oil to its foreign stations for account of the board.

That covered 33 tankers. Then there were six semiprivate tankers, or in semiprivate use; and five under construction that were tied up by charters, although they had not as yet been delivered for semiprivate use.

Semiprivate use consisted of charters along this line:

For instance, to the Huastech Petroleum Co.: Charters on these steamers will be extended indefinitely to this company in contemplation of satisfactory contracts being made by them for fuel oil supply to the United States. We have also allocated two under construction for semiprivate account. This company has contracts with the board to deliver fuel oil at Jacksonville, New Orleans, and Galveston, and this service requires about two tankers—as they have four tankers two are for their private account.

The next case is the Gulf Refining Co.: Steamers chartered to this company to enable them to protect their contracts with public utility corporations, such as railroads, and so forth. We have also allocated two under construction for semiprivate account.

The next is the Interocean Oil Co.: Charter of steamer to this company to be extended in anticipation of contract being made with the board for refining, storing, and delivery of fuel oil at Baltimore.

The next one is the Sinclair Navigation Co.: Steamer chartered to this company to transport fuel oil to Cuba to the sugar refineries, subject to use at any time by the board to replenish our station at St. Thomas. Charter temporarily suspended to allow steamer to load cargo of fuel oil at Tampico for discharge at St. Thomas for the account of the board.

The next case is the Sugar Products Co.: One steamer under construction was allocated to them.

The next one is the West Indies Transportation Co.: Steamers employed in molasses trade. A large portion of the molasses is used for cattle-feeding purposes, and the tank-steamer department has received many pressing applications for the allocation of additional tonnage in this trade. But that is not for Government account, in the case of molasses, like the others I gave you.

Next are steamers for private account. There were 15 steamers allocated to private corporations for their private account, and 4 then had not been allocated to private corporations for private account, plus at least 6 more, which you will find up here higher in this statement, which were for private account, and benefit of the private corporations having the tankers. Thirty more were coming off the ways, under no allocation.

I then made an analysis of the oil used by the Shipping Board, and found that we needed about 42,000,000 barrels of oil a year to run the fleet. I found that Capt. Foley did not know that the ship operators operating for the account of the Shipping Board, or general-cargo boats, at least 40 per cent of them were buying oil at from \$4

to \$6 a barrel in the open market, while 60 per cent of the fuel oil being furnished by the Shipping Board was at \$2.07 a barrel. In other words, that while we had this vast fleet of tankers, sufficient for our own use, at least 20 of them were being used for private account, and we, the Shipping Board, were having operators of our cargo boats buy 40 per cent of the oil that they used in the open market.

On the 28th day of May I called on the operating division to give me a list of the ships in ports, from Maine to Florida, that were held up on account of oil. These ships cost us \$2,000 a day to lie idle with the crews on them. I received a list of 54 ships, representing a loss of \$108,000 a day, or \$3,000,000 a month. I then made inquiry as to these contracts with private persons. I found that the Vacuum Oil Co. had four of these steamers. I found that the Standard Oil Co. of New York had one steamer. I found that the Standard Oil Co. of California had three steamers. I found that the Atlantic Refining Co. had one steamer. I found that the American Fuel & Transportation Co. had one steamer. I found that the Island Oil Marketing Corporation had two steamers. I found that the G. W. McNear Co. (Inc.) had one steamer. I found that the France & Canada Oil Transportation Co. had one. I found over in what they called semiprivate, a number of tankers allocated for private purposes to help out in what they called Government or national needs.

We were at that time vitally short of tankers. There was a world shortage of tankers. There was a national shortage of tankers. I have never had occasion to figure it, but I am informed that at that time the rate at which tankers were being leased in the open market ran from \$15 per dead-weight ton to as high as \$20 and \$22 a dead-weight ton. The Government was leasing these tankers to these private parties or corporations for, I believe, either \$6.15 or \$6.50 per dead-weight ton per month. The exact amount I do not find in the record.

Now, to explain what that meant: For several months, unbeknown to Judge Payne and unbeknown to Admiral Benson, we had these tankers there in the hands of private interests, making at least \$60,000 a month. That was the minimum. It was the only piece of floating property belonging to the Shipping Board for which there was a demand and on which we could make a handsome profit, and it was done at the sacrifice of our own oil needs, because where we had contracts for the delivery of oil for ourselves if we hauled it and took care of it, at the rate of \$2.70 a barrel, we did not furnish our own boats, and 40 per cent of them were purchasing in the open market at from \$4 to \$6 a barrel. At the same time we were delaying our boats to such an extent that on the Atlantic coast on that particular day there were 54 of those ships waiting for oil.

As soon as a chart was made and the situation was seen it was submitted to Admiral Benson. He moved instantly. He took the division away from Paul Foley and put it in the hands of Mr. Bowen, who then chartered the fuel requirements, under a plan that was worked out for him, so that he was able to get a list of his contracts for the delivery of oil, the delivery dates, the ports at which it was to be delivered, the tankering to take care of it, and the ships to take care of that tankering and the number.

Now, the admiral is able to control this situation. There is only one thing wrong with it, and that is that the time clauses are not broken with those private parties. In my judgment the Shipping Board should reach out as to those contracts and take those ships back, even if these lessees do claim damages for the contract, we having built those ships for our own use, we needing them for our own use, and we paying almost in blood for oil on the outside while these tankers are diverted to other purposes.

I submit for the record, in that connection, the charts of May 24 and of June 1, showing the oil situation.

(The tabulations so submitted by Mr. Gillen are here printed in full, as follows:)

Distribution of tankers as of May 24, 1920.

Names of charters and steamers.	Dead-weight.	Form of charter.	Date of charter.	Date of expiration.
A. TANKERS OPERATING.				
1. (a) Standard Oil Co. of N. J., Government account:				
In operation—				
Allentown.....	7,300	Voyage.....	May 10, 1920	June 15, 1920
Antietam.....	10,100	.....do.....	May 12, 1920	June 18, 1920
Bethelridge.....	10,300	.....do.....	Oct. 30, 1919	June 23, 1920
Overbrook.....	9,000	.....do.....	Apr. 9, 1920	May 29, 1920
Portola Plumas.....	10,100	.....do.....	May 7, 1920	June 5, 1920
Rapidan.....	11,375	.....do.....	May 12, 1920	May 25, 1920
Salem County.....	7,500	.....do.....	Apr. 22, 1920	Do.
Salinas.....	11,375	.....do.....	May 18, 1920	June 7, 1920
Sharon.....	7,000	.....do.....	May 12, 1920	June 15, 1920
Silverbrook (account Panama Canal. See note).	9,000	.....do.....	May 19, 1920	June 8, 1920
W. S. Rheem (account Panama Canal. Commitments—	10,475	.....do.....	May 10, 1920	June 5, 1920
Hoxbar.....	10,100	From U. S. Shipping Board account.		
Bessemer.....	7,000	From Gulf Refining account.		
1. (b) Vacuum Oil Co., private account:				
In operation—				
Avondale.....	9,000	Time.....	May 24, 1920	Dec. 31, 1920
Chestnut Hill.....	7,028	.....do.....	Mar. 15, 1920	Do.
Deroche.....	10,100	.....do.....	.....do.....	Do.
Liberty Minquas.....	7,500	.....do.....	Apr. 1, 1920	Do.
1. (c) Standard Oil Co. of N. Y., private account:				
In operation—				
Hugoton.....	10,100	.....do.....	July 14, 1919	July —, 1920
1. (d) Standard Oil Co. of California, private account:				
In operation—				
Dillwtn.....	10,111	.....do.....	Sept. 30, 1919	Oct. 2, 1920
Dillworth.....	10,100	.....do.....	.....do.....	Jan. 15, 1920
Quabbin.....	10,000	.....do.....	Mar. 17, 1920	June 30, 1920
1. (e) Atlantic Refining Co., private account:				
In operation—				
Hisco.....	8,943	Voyage.....	Jan. 6, 1920	June 22, 1920
2. Texas Co., Government account:				
In operation—				
Furnwell.....	9,000	Time.....	July 1, 1919	Aug. 1, 1920
Hugenot.....	10,100	.....do.....	Aug. 11, 1919	Aug. 25, 1920
Romulus.....	7,500	.....do.....	July 1, 1919	Aug. 2, 1920
Watertown.....	9,100	.....do.....	July 15, 1919	July —, 1920
3. Barber Asphalt Co., Government account:				
In operation—				
Laramie.....	10,000	Voyage.....	Apr. 2, 1920	Sept. 20, 1920
4. Warner Quinlan Co., semiprivate account:				
In operation—				
Hagan.....	9,100	.....do.....	Apr. 7, 1920	Sept. 1, 1920
Hagood.....	10,100	.....do.....	May 22, 1920	Aug. 1, 1920

Distribution of tankers as of May 24, 1920—Continued.

Names of charters and steamers.	Dead-weight.	Form of charter.	Date of charter.	Date of expiration.
A. TANKERS OPERATING—continued.				
5. Huasteca Petroleum Co.:				
In operation—				
Betterton (private account).....	10,300	Voyage.....	Feb. 6, 1920	June 25, 1920
Hadnot (private account).....	9,100	.....do.....	May 12, 1920	May 27, 1920
Habatonka (Government account).....	10,100	.....do.....	.....do.....	Do.
Viacarbon (Government account).....	10,000	.....do.....	Apr. 26, 1920	May 24, 1920
Under construction—				
Miller County.....	10,300	.....	.....	.....
Mattole.....	10,000	.....	.....	.....
6. Gulf Refining Co., semiprivate account:				
In operation—				
Bessemer.....	7,000	Voyage.....	Nov. 20, 1919	June 23, 1920
Cabrille.....	7,500	.....do.....	Nov. 14, 1919	Aug. 5, 1920
Under construction—				
Dinsmore.....	7,500	.....	.....	.....
Moffitt.....	7,500	.....	.....	.....
7. Interocean Oil Co., semiprivate account:				
In operation—				
Bald Butte.....	9,100	Voyage.....	Jan. 1, 1920	June 7, 1920
8. American Fuel Oil Transportation Co.:				
Commitments—				
Utacarbon.....	10,000	.....	.....	.....
Portola Phumas.....	10,100	.....	.....	.....
Under construction—				
Palo Alto.....	7,500	.....	.....	.....
9. Island Oil Marketing Corporation, private account:				
In operation—				
Brandywine.....	7,500	Voyage.....	Dec. 15, 1919	Aug. 1, 1920
Bald Hill.....	9,100	Time.....	Oct. 21, 1919	Oct. 1, 1920
Under construction—				
Peralta.....	7,500	.....	.....	.....
10. G. W. McNear, private account:				
In operation—				
City of Reno.....	10,000	Time.....	July 31, 1919	Aug. 15, 1920
11. France & Canada Oil Transportation Co., private account:				
In operation—				
Tri Mountain.....	9,100	Voyage.....	Apr. 23, 1920	July 10, 1920
Under construction—				
Cuyamaca.....	7,500	.....	.....	.....
San Pasqual.....	7,500	.....	.....	.....
12. Sinclair Navigation Co., semiprivate account:				
Commitment—				
J. M. Connelly.....	7,000	.....	.....	.....
13. Sugar Produce Co., semiprivate account:				
In operation—				
Dannie Dalke.....	6,000	Voyage.....	Dec. 9, 1919	Oct. 12, 1920
Under construction—				
City of Freeport.....	6,000	.....	.....	.....
14. West Indies Transportation Co., semiprivate account:				
In operation—				
Danville.....	6,000	Voyage.....	Apr. 15, 1920	Dec. 31, 1920
Kewanee.....	6,000	.....do.....	Feb. 25, 1920	Sept. 1, 1920
15. U. S. Shipping Board, Government account:				
In operation—				
Cathwood.....	10,100	.....	.....	.....
Houma.....	10,358	.....	.....	.....
City of Ahmeda.....	10,114	.....	.....	.....
Haven.....	10,100	.....	.....	.....
Keweah.....	10,000	.....	.....	.....
Hulaco.....	10,100	.....	.....	.....
Derbyline.....	10,000	.....	.....	.....
Devolente.....	10,159	.....	.....	.....
Imlay.....	10,100	.....	.....	.....
Miskianza.....	10,100	.....	.....	.....
J. M. Connelly.....	7,000	.....	.....	.....
Phoenix.....	9,100	.....	.....	.....
Hoxbar.....	10,100	.....	.....	.....

Distribution of Tankers as of May 24, 1920—Continued.

Name.	Dead-weight.	pected date of delivery.	Name.	Dead-weight.	pected date of delivery.
B. TANKERS UNDER CONSTRUCTION, NOT COMMITTED.			B. TANKERS UNDER CONSTRUCTION NOT COMMITTED—con.		
To be allocated			To be allocated—Continued.		
Kekuku.....	7,500	May 20	Hahira.....	10,100	June 30
Sepulga.....	11,375	May 28	Bidwell.....	10,300	Aug. 20
Richconcal.....	10,100	June 4	Stockton.....	10,000	Sept. —
Salina.....	10,000	June 15	Hampton Roads.....	10,300	Nov. —
Tippecande.....	11,375	July 2			
Dungamon.....	10,100	July 26	C. TANKERS CONTRACTED FOR, NOT YET STARTED.		
Meton.....	10,000	July 1			
Cecil County.....	10,300	July 20	District of Columbia.....	10,200	
Durango.....	10,100	July 25	Hambro.....	10,100	
Halo.....	10,100	Aug. —	Hamer.....	10,100	
Rapulpa.....	10,000	Aug. —	Hamac.....	10,100	
Warwick.....	6,000	Nov. —	Hull No. 2859.....	10,200	
Kakoskee.....	7,500	Aug. —	Hull No. 2860.....	10,200	
Mevania.....	10,000	Aug. —	Hull No. 2861.....	10,200	
Halway.....	10,100	Oct. —	3 A ¹ (each).....	10,000	
Halsey.....	10,100	Sept. —			

¹ Contract being executed.

SERVICES IN WHICH TANKERS ARE ENGAGED.

GOVERNMENT.

A-1 (a). *Standard Oil Co. of N. J.*—These steamers are engaged exclusively in transporting crude oil coastwise for conversion into fuel oil for account of the United States Shipping Board. (Standard deducts from deliveries of crude by these tankers equivalent in transportation of fuel oil delivered by West India Co. to Panama Canal, therefore, two of these tankers are for account of the Panama Canal.)

A-2. *Texas Co.*—Steamers engaged in making deliveries of fuel oil and gasoline under Navy Department contracts.

A-3. *Barber Asphalt Co.*—Steamers engaged in making delivery under War Department contracts.

A-4. *Warner-Quinlan Co.*—Steamers engaged in making delivery under War Department contracts.

A-15. *United States Shipping Board.*—Steamers engaged in transporting fuel oil to its foreign stations for account of the Board

SEMI-PRIVATE.

A-5. *Huasteca Petroleum Co.*—Charters on these steamers will be extended indefinitely to this company in contemplation of satisfactory contracts being made by them for fuel oil supplies to United States. We have also allocated 2 under construction for semi-private account. (This company has contracts with board to deliver fuel oil at Jacksonville, New Orleans, and Galveston and this service requires about two tankers—as they have four tankers, two are for their private account.)

A-6. *Gulf Refining Co.*—Steamers chartered to this company to enable them to protect their contracts with public utility corporations such as railroads, etc. We have also allocated two under construction for semi-private account.

A-7. *Inter-Ocean Oil Co.*—Charter of steamer to this company to be extended in anticipation of contract being made with the Board for the refining, storing, and delivery of fuel oil at Baltimore.

A-12. *Sinclair Navigation Co.*—Steamer chartered to this company to transport fuel oil to Cuba to support sugar refineries, subject to use at any time by the board to replenish our station at St. Thomas. Charter temporarily suspended to allow steamer to load cargo fuel oil at Tampico for discharge at St. Thomas for the account of the board.

A-13. *Sugar Products Co.*—Have allocated one under construction.

A-14. *West Indies Transportation Co.*—Steamers employed in molasses trade. A large portion of this molasses is used for cattle-feeding purposes, and the Tank Steamer Department has received many pressing applications for the allocation of additional tonnage in this trade.

PRIVATE.

A-1 (b). *Vacuum Oil Co.*—These steamers have been chartered to the Vacuum Oil Co. to restore and protect their foreign encroachment.

A-1 (c). *Standard Oil Co. of N. Y.*—Steamer chartered to this company in consideration of their making deliveries of fuel oil to Shipping Board steamers at Shanghai and Hong Kong.

A-1 (d). *Standard Oil Co. of California.*—Steamers time chartered.

A-1 (e). *Atlantic Refining Co.*—Steamer on voyage charter

A-8. *American Fuel Transportation Co.*—Steamers time chartered to this company on account of delay in delivery of concrete tankers.

A-9. *Island Oil Marketing Corporation.*—Two steamers—one time chartered and one on voyage charter.

A-10. *G. W. McNair (Inc.).*—Steamer chartered for voyages from Pacific Coast Ports to United Kingdom.

A-11. *France & Canada Oil Transportation Co.*—Steamer chartered for voyages from Mexico to Fall River subject to use by the board at any time to replenish our station at St. Thomas.

B. Steamers now under construction will, upon completion, become engaged as required in the transportation of fuel oil for Government account.

C. Steamers contracted for, the construction of which has not yet begun.



Sta

Price
(barrel).

\$1.90

1.60

2.07

2.07

2.07

2.37

* 2.68

2.00

1.50

1.40

Recapitulation.

Account.	Number of steamers.		Dead-weight tonnage.	Dead-weight tonnage.
	In operation.	Under construction.		
Government.....	33	.....	315 856	.....
Semiprivate.....	6	5	80,128	48,600
Private.....	15	4	86,753	30,000
Under construction (no allocation).....	.....	30	.....	296,450
Total.....	54	39	482,737	375,050

Mr. GILLEN. Continuing with this analysis, it also shows how many boats the Shipping Board needs for oil purposes and gives a knowledge of the number of tankers still to come. In other words, when the tanker program is completed, according to this chart made at that time, we will have 93 tankers, and we will have use for approximately 54—it may be 56 or 58 or it may be a little less than that—to pull our 42,000,000 barrels of oil.

The balance of those tankers are available for sale, and this is the best market the Government will ever get to sell those tankers. They are building for British account in Great Britain a great amount of tanker tonnage. They are building in this country, at from \$190 to \$195, about 950,000 tons, I believe, of tankers. I am not sure of the figure, but anyhow it is a very large amount. If you delay to any great extent in selling the balance of those tankers, you will not be able to sell them except at quite a reduced price, and in my judgment the balance of those tankers beyond those which are needed for the Shipping Board should be sold, and if you have to get possession of those that are in the hands of private operators for private account, the Government should take those tankers in hand and sell them.

In reference to that tanker situation, I desire to file a letter of July 24, 1920, written by me in my official capacity as a trustee of the Emergency Fleet Corporation to Admiral Benson. In discussing another case in my office I had said that this particular matter that I was talking about was like the tanker situation; it was so rotten that when I put my finger down into it my hand went way down to the elbow. Somebody heard it and reported it to Capt. Foley, and he wrote a letter to the admiral saying that he should ask me for an apology.

I wrote this letter reviewing the situation. Mark you, this is July 24—a month afterwards—and for some reason or other Capt. Foley still wants to get hold of that tanker position. I want to say for Capt. Foley that he is an honest man, in my judgment, but he has no business to handle or have anything to do with the tanker situation. It should be carefully watched, as it is now, by the chairman of the Shipping Board or by some one of the members of the board, for the desire to get tankers creates a situation that needs to be carefully watched.

The CHAIRMAN. It needs resistance?

Mr. GILLEN. It needs what I said the other day, resistance, sir; yes, sir. [Reading:]

JULY 24, 1920.

PRESIDENT UNITED STATES SHIPPING BOARD
EMERGENCY FLEET CORPORATION,
Washington, D. C.

MY DEAR ADMIRAL: I have before me a memorandum 311, 312, and 313 of Director of Operations Foley and have carefully considered the same.

They are in the main complaints made against me as trustee of the Emergency Fleet Corporation, holding an official position as an associate trustee with you of the Fleet Corporation, and as superior officer of Mr. Foley, director of operations, handling the fleet subject to the rule and regulations laid down by his superior officers, namely, the board of trustees of the Emergency Fleet Corporation. The complaints of his two assistants in which they say that the resolution is of such a nature that they can not stay in the organization and comply with it—which Mr. Foley brings forth—are against the direct action of the board of trustees.

Both to you and Mr. Foley, with your years of experience in the Navy, there must come at once the definite thought that proper organization means obedient loyalty to the rules of superior authority, and there can be no leniency shown to acts which do not recognize superior authority in an organization. The resignation of Mr. Clooney and Mr. Payne should be accepted forthwith for the good of the organization. I understand we have sufficient ability and talent to take care of the tanker operations within our own organization.

As to the complaint of Mr. Foley, director of operations, permit me to point out that he has not accepted the proper viewpoint of the work that I have endeavored to do in this corporation in so far as it affects his department. I came to the corporation special assistant to Judge Payne to analyze each of the departments of the corporation. Until the 1st of May of this year I was busy in the department of the treasurer, comptroller, construction, claims, and repair. My main effort was directly to disclose and bring to the attention of the director of those departments in the first instance and to the board as a whole those underlying errors and defects that existed so that proper judgment could be exercised by the director of the departments and the officials of the corporation.

It has even been recognized by everyone connected with this organization that things have been and are in a most chaotic condition and that we have had few men in the organization who have been trained to analyze conditions and bring up the facts so that corrections might be made. In analyzing the situation from the 1st of October to the 1st of May in the above departments, I have fearlessly brought forth conditions that were intolerable, unbusinesslike, destructive, and costly to the fleet. In each case when those facts were brought forth the directors of those departments, as well as Judge Payne, aided me and did not take umbrage as I dug up conditions that showed their department to be running in a frightful way. Repeatedly did I find things that Judge Payne was doing, which facts would not warrant, and ever did he court the disclosure when I brought them to him without taking umbrage. Then, too, you yourself, as chairman of the board, have not hesitated to permit me to show you conditions which corrected your judgment from time to time. You have been more than kind to me in accepting facts and judgments that I have presented—many times in a rapid insistent manner—because you, with Judge Payne and the other directors of departments with whom I have worked, realize that my one effort has been to get up facts so that unsatisfactory conditions could be corrected.

Beginning about the 1st of May I started to get information concerning the tanker division and the oil supply which were under the control of Mr. Foley. He has had but a limited business experience in commercial affairs and has never been trained to analyze vast business transactions; yet there has been thrown on him a position, as director of operations, which involves operating a fleet of approximately 1,250 cargo boats and 54 tankers and the supplying of oil for these cargo boats. It is no wonder that his department, unchartered as it is to-day, can not give him the reflection of that department. This is no charge against him that he is incompetent nor that he has been unfaithful to his trust, for were his position to be filled in a business organization, it would be a Franklin, a Raymond, or a Ballin who would take that job, but under the Government service we can not get the services of such men. Further, he has not under our system the opportunity to get the business reflections from the operations of the fleet or the tankers.

As I dug into that condition, both he and his assistant, Mr. Clooney, resented it, and instead of them aiding by way of advice across the table it was only by insistence

on my part that I was able to get the facts charted in reference to the tankers, the use of oil by our fleet as to the amount and the supply, and as to the use of our tankers as a means of getting a supply. You will recall, and the minutes of the meeting will show, that Mr. Foley did not know that our operators were buying 40 per cent of the oil for our fleet in May of this year at from \$4 to \$8 a barrel, nor did he have knowledge of the amount of oil required for our fleet, for our records show about 42,000 barrels, while 60,000 was the number that Mr. Foley used repeatedly. This is not mentioned to criticize him in his position, because there were never enough hours in the day, nor did he have the business training, nor were our records in shape, unless properly charted, to show the requirements, so that he or the trustees of the Emergency Fleet Corporation could see what the conditions were.

I have no argument as to "yesterday," but I want to point out that for the first time since last October, at which time I came with the Fleet Corporation, have I seen tanker records come before the board which the board of trustees could lay their eyes on and form a judgment therefrom of two facts—first, the number of tankers that we had in use and to be delivered to us, and the use of those tankers; and, second, the supply of oil necessary for our fleet, together with the conditions surrounding the future use of tankers to aid the supply. Mr. Foley's department did not dig that up except upon my insistent demand as a trustee.

From a business standpoint, after investigating that situation and realizing that his position as director of operations required him to handle 1,200 ships, which were being handled in a most unbusinesslike manner—again for which he is not responsible—I set forth to the trustees of the fleet that it was necessary to take this division, in so far as the supplying of oil and the use of tankers was concerned, away from the director of operations and put it under a separate division, at the same time leaving with his division the operation of those tankers, but as to the allocation of them, have that placed under the purchase and supply division for the procurement of oil.

The remark made by me that the tanker situation was rotten (or words to that effect) is true, and my judgment has not changed one iota in that respect. That is not a reflection on Mr. Foley; it is a reflection on conditions which he could not control, because it was physically impossible for him to do so. If the director of operations will devote his time to strengthening his organization in his home office in Washington for the operation of this fleet so that supervision can be had of the 1,200 boats that we have at sea, in the repair yards, and lying idle in the harbors, he will perform a great constructive piece of work with the responsibility that goes with it. Then, too, at the Tuesday meetings he should present a chart of his work as far as possible.

I deeply regret that Director Foley has not taken a larger view of my activities in this regard, for he well knows from his experience at the Tuesday meetings which he has attended for many months, that the drives that I have made as trustee and assistant to the chairman have been for the betterment of the organization and not personal as to himself or as to the parties interested.

Whether it is required to have a representative of the Division of Operations on tankers in New York City as against Washington, I have not enough knowledge of the situation to decide, and it may be better that Mr. Foley's representative remain in New York for a sufficient length of time for Mr. Bowen to analyze that situation carefully.

However, permit me to make this prediction—that the analysis of the tank steamer situation as to Government and private use, if kept up by Mr. Bowen, will bring to the attention of your board, first, the number of tankers actually needed for our use and the number that are to be sold or leased; and, second, you will be able to control the supply of crude oil for the benefit of this board, which will obviate the necessity of the operators buying 40 per cent of the oil at from \$4 to \$8 a barrel; neither will you have so many as 54 cargo boats all at one time lying in the harbors of Atlantic ports waiting for oil.

Mr. Bowen should be requested to so chart the tankers that, as we have an excess, an advertisement can be inserted in the commercial papers asking for bids for the leasing of those tankers or for their sale. We will then find out what the market is and will stop preference, petty pull, or misinformation in the acquirement by private interests of our tankers.

I respectfully return herewith to you memorandum 311, 312, and 313 from Mr. Foley.

Very truly, yours,

Trustee, Emergency Fleet Corporation.

Are there any questions on the tankers?

The CHAIRMAN. Upon receipt of that letter, you say, the admiral acted promptly?

Mr. GILLEN. This was a later letter. The admiral acted at once when the matter was called to his attention. I would like to say for Admiral Benson that I never saw a situation arise, when it got to the admiral and where he could understand it, charted, that he did not move promptly and in nearly every case with good judgment.

Mr. STEELE (handing to the witness the tabulated statement last submitted by him). How long had these contracts for private use been in existence?

Mr. GILLEN. The date of the charter in this column here [indicating] will tell the story. If you want me to put into the record the exact dates——

Mr. STEELE. I do not want any repetition.

Mr. GILLEN. All that I put into the record was the date of the charter and the date of its expiration, because I wanted that information to know when it was done so we could put our finger on the people who had done it.

Mr. STEELE. The impression that I had from glancing over your statement was that they had not been very long in existence, and I wanted to know whether my impression was correct.

Mr. GILLEN. Let us take one case; take A-1-(b), the case of the Vacuum Oil Co. It had four tankers May 24, 1920. Mr. Foley at that time, as I pointed out to the admiral, fell in on top of that thing, and he gave the last one to the Vacuum Oil Co. on May 24, 1920.

Mr. STEELE. What was the date of your report on that?

Mr. GILLEN. This was charted up on May 24; but I had been working with him then for two and a half or three weeks. Another one was March 15, 1920. Another one was March 15, 1920. Another one was April 1, 1920. I maintain that those four contracts should be canceled and that we should take those boats back. Those contracts expire on the 31st of December, this year.

Mr. STEELE. That covers what I wanted; it shows my impression as to what you said was correct.

Mr. GILLEN. In that particular one, maybe, but not as to the others. Take the case of the Standard Oil Co. of New York. That was July 14, 1919, and expired in July, 1920.

Mr. STEELE. Your recommendation was that the surplus tankers should be sold at once?

Mr. GILLEN. My recommendation was that these contracts for private purposes should be taken back.

Mr. STEELE. Do you know whether Admiral Benson took any steps to do that?

Mr. GILLEN. Afterwards he had no board about him, so that he dared not take as strong a position as that. When Judge Payne left in March, that left Mr. Stevens, Mr. Donald, and Admiral Benson. Then Mr. Stevens left before this particular matter came up, and that left merely Mr. Donald and Admiral Benson.

Now, there is another phase of this tanker case which should be brought out here, so that the injustice may not be done. The understanding with the big oil companies was that where they carried oil for our account—in other words, we bought the oil, and they not having the tankers we would supply the tankers to them. On

this paper you will find reference to the Standard Oil Co. We were buying oil, and they were hauling it for our account. But the Vacuum Oil Co. was not delivering any oil to us, and these other private concerns were not delivering oil, and they were not hauling our oil.

During this time the Standard Oil Co. of New Jersey came down and pointed out to us that the Shipping Board owed them a credit of 1,300,000 barrels delivery, where under an arrangement that they had with us we were to furnish them tankers, and we failed to do so, so that we owed them tankerage to that amount. At the same time the Pan-American had some claims, and I think there are some other tanker companies or other oil companies whose credits have not been satisfied to date. And yet other companies not furnishing us a bit of oil, got these tankers in a market where tankers were gold, and got them at such a price that it is almost a shame to think that there are on the records of the corporation charters of that low rate.

Mr. STEELE. That criticism, as I understand you, does not apply to tankers allotted to the Standard Oil? They were carrying Government oil?

Mr. GILLEN. They were carrying Government oil; that is, certain of the Standards. The Standard of New York, no. The Standard of New York had for private use one boat of 10,100 tons. But the Standard of New Jersey—they got an awful trimming, from what they tell me. There is quite a competition among these Standard companies, and they do not pay much respect to each other.

Mr. STEELE. I thought there was general harmony among them.

Mr. GILLEN. Not if you listen to the talks I have listened to down there when the different Standards were down there fighting.

Mr. STEELE. I was just trying to discover which one of these companies was carrying Government oil, and which were not.

Mr. GILLEN. The Standard of New Jersey—I think they have a contract now, when we could not get anyone else, practically, to give us contracts. I may be wrong as to the amount of the oil, but of the 42,000,000 barrels, they came in and made a contract to the extent, I think, of twenty or twenty-four million barrels for this next year, while these other big companies would not come in except at a very much larger price.

Mr. STEELE. Then only the companies that you have enumerated here—one or two of the Standard Oil companies—were carrying Government oil?

Mr. GILLEN. That is all.

Mr. KELLEY. My understanding is that the Government furnishes the oil for all the cargo ships that are in the hands of these operators?

Mr. GILLEN. And we furnished the Navy oil, and furnished the Army oil as well, and the oil for the Panama Railroad and their boats.

Mr. KELLEY. And under this disposition of the tankers the operators were required to purchase at retail about 16,000,000 barrels of oil a year?

Mr. GILLEN. Again, "if"—if it ran during the 12 months, that would be so. At the time we got into it, it was running that high for a month, and had been running that high for some time. You will notice that if it takes 54 tankers to pull our oil and we have about 33 of them in our service and you have 21 in the other service,

you have twenty-one fiftieths; that is, we are shy about 40 per cent. And that is the remarkable thing, that it worked out that way after we made the investigation from the other standpoint.

Mr. KELLEY. That would mean that the ships were buying about sixty-four or sixty-five million dollars worth of oil at retail that nobody down there seemed to know anything about?

Mr. GILLEN. Oh, they know about it; after we got control of it we knew they were buying supplies. But no one in the Division of Operations knew that the operators were buying oil in the open market.

Mr. KELLEY. Well, if the monthly accounts of the ships were audited for supplies, why would they not know about it as the vouchers came through?

Mr. GILLEN. I do not think they would pick it up that way, because if it was in due course of business the accountant would not pick that out again. It would have to come from the Division of Operations. Working with the supply and sales, he ought to know how much oil he would need for a year, and the Division of Supply and Sales would know whether they were using this oil up.

Mr. KELLEY. That is to say, it was not the business of the accountant to know anything about who furnished the oil?

Mr. GILLEN. It was his business——

Mr. KELLEY. To know that the oil was furnished? He did not have anything to do with controlling the supply of oil?

Mr. GILLEN. Not at all. There has been an absolute failure in the Division of Operations to know anything about one of the biggest supplies we have. You take your oil at \$2.07 a barrel, and figure that you require 42,000,000 barrels, and you see what it amounts to during the year. If it were \$2.30, as it has now gone up, you can see what it would mean.

Mr. KELLEY. It means sixty-four or sixty-five million dollars worth of purchases?

Mr. GILLEN. Yes, sir.

Mr. KELLEY. What percentage of the cost of operating a ship is fuel? Do you know?

Mr. GILLEN. I could not tell you.

Mr. KELLEY. The President has all his war powers yet, has he not, Mr. Gillen?

Mr. GILLEN. Yes.

Mr. KELLEY. He has authority, has he not, to take these ships at any time, or any other property in the United States?

Mr. GILLEN. Yes; but we have had a pretty sad experience in the exercise of that authority because after you get hold of one of those vessel by fiat of law and have got your Government organization in there, then you have a fine lot of damages and you have messed the situation a good deal worse than it was before.

Mr. KELLEY. What was your idea about getting hold of these ships? Just simply take them and trust to a settlement at some other time?

Mr. GILLEN. Why, when it came into port I would take my boat over; that is all. I would maintain that the lease was—well, a good deal like when an incompetent makes a contract and you reach out and break his contract and take back the things he has given away. I do not know what word you would use there.

Mr. KELLEY. Non compos mentis? Is that what you are trying to say?

Mr. GILLEN. No. I think there was a lot of pull in those contracts; I do not think it is all "non compos mentis" by a long shot.

Mr. STEELE. Who was chairman of the board then?

Mr. GILLEN. Admiral Benson; and Judge Payne was there while part of that was going on.

Mr. KELLEY. Mr. Gillen, how many members were there supposed to be on the Shipping Board when the places were all filled?

Mr. GILLEN. Five.

Mr. KELLEY. You have mentioned a good many times Judge Payne and Mr. Donald, and I have not heard you mention anybody else very much. Were there only those two members on the board?

Mr. GILLEN. When I came there, there was Judge Payne, Mr. John Donald, and Mr. Scott. There was a fourth member, Mr. Stevens, but he did not show up as a member of the board until January.

Mr. KELLEY. What do you mean by saying that he did not show up?

Mr. GILLEN. Well, he was not around there.

Mr. KELLEY. Did he draw his pay?

Mr. GILLEN. I imagine so; he had not resigned.

Mr. KELLEY. He did not show up for how long?

Mr. GILLEN. Why, I understood from the 1st of August to the 1st of January. I understood he was down in Florida during that period. I know he came back the 1st of January, 1920.

Mr. KELLEY. Was he sick?

Mr. GILLEN. I do not know. He looked very well when he came back.

Mr. KELLEY. Well, who else?

Mr. GILLEN. There was one vacancy on the board.

Mr. KELLEY. There were practically two vacancies, according to that?

Mr. GILLEN. That is a matter of calculation.

Mr. KELLEY. Yes; that is a matter of arithmetic. How long a time elapsed with only Judge Payne and Mr. Donald on the board?

Mr. GILLEN. Well, Mr. Stevens, Judge Payne, Mr. Donald, and Mr. Scott were on the board when Judge Payne resigned. Then Admiral Benson was appointed. Shortly thereafter, about a month after Judge Payne left, Mr. Scott left, and then there were three members out of five. Then along about the 1st of June, I think it was, 1920, Mr. Stevens resigned.

Mr. KELLEY. That left two out of five?

Mr. GILLEN. Two out of five. And Mr. Donald was taken sick about three weeks ago——

Mr. KELLEY. And that leaves one?

Mr. GILLEN. And he is a very sick man.

Mr. KELLEY. How could they do business on this board with less than a quorum?

Mr. GILLEN. I think the law, the Jones bill, provides that the remaining members of the board can continue to operate the board and perform its functions until the new board is organized.

Mr. KELLEY. So that Admiral Benson is practically performing all the functions of the entire board at the present time?

Mr. GILLEN. In the absence of Mr. Donald, I would say so.

Mr. KELLEY. Has Mr. Donald been sick long?

Mr. GILLEN. About two or three weeks.

Mr. KELLEY. As I judge from what has been said here, he is rather an elderly man?

Mr. GILLEN. He is an elderly man, but he was one of the most conscientious public servants that I ever knew. I never knew him to be absent from that organization from 9 o'clock in the morning until 6 o'clock at night all during the period I was there and all during the hot weather this last summer; and they tell me that that was his record all during the almost four years he was on the board.

Mr. KELLEY. Who took your place as aid to the chairman of the board?

Mr. GILLEN. While that was my title, that was the title that I had, I held a different position than a special assistant to the chairman. I was functioning with the department heads. The chairman has a number of assistants; he has two or three assistants, I think. Judge Payne had three assistants. The admiral has two or three assistants.

Mr. KELLEY. Who is at the head of the operation of these tankers now, the tanker division?

Mr. GILLEN. Mr. Bowen.

Mr. KELLEY. And is Capt. Foley connected with the board yet?

Mr. GILLEN. He is chief of operations.

Mr. KELLEY. Well, how did he get that position?

Mr. GILLEN. When Mr. Cushing left he was advanced from chief of the tanker division to chief of operations.

Mr. KELLEY. So that now he not only controls the tankers but the whole 1,200 of the fleet?

Mr. GILLEN. The tankers were taken away from him; Mr. Bowen was put in charge of the tankers.

Mr. KELLEY. And although he made a complete failure of handling the tankers, he was given the entire fleet to manage?

Mr. GILLEN. He was given the entire fleet to manage, including tankers, and tankers were taken away from him.

Mr. KELLEY. I see. He had charge of operations——

Mr. GILLEN. Director of operations.

Mr. KELLEY. At the time that this matter arose, and because of this particular investigation, the tankers were taken away?

Mr. GILLEN. Yes, sir.

Mr. KELLEY. Based upon the information which you obtained that day as to the number of ships that were waiting for oil and the delay, and the number of ships that had to obtain oil at retail—based upon that and spreading it out over the year, what would you say would be the loss to the Government of this depreciation of the tankers?

Mr. GILLEN. I could make no estimate that would be a fair one to this committee, because that was during a bad period on the Atlantic coast, and yet there must have been an apparent shortage over a long period, because they had deflected practically 21 tankers out of 54, which were required to carry the amount of oil consumed by the Shipping Board.

Mr. KELLEY. But if that ratio held as to the shortage of oil throughout the year, it would make at least \$65,000,000 for that item alone, based on the lowest price that they paid for oil at retail, namely, \$4. a barrel.

Mr. GILLEN. I would not care to make an estimate, but I am of the opinion that three great losses occurred; first, the holding up of our ships from time to time because they could not get oil; second, the purchasing of oil in the market by operators who did not care what price they paid as long as they got their oil; and, third, the great loss to the Government in its failure to lease those tankers at the going or public rate, where there would have been a terrific competition in the bidding for those tankers every time one of them was free, because it was the only free tankering in America.

The CHAIRMAN. Mr. Gillen, did I understand your testimony yesterday to be that at the time you went to the board, while Judge Payne was chairman, Mr. Rossiter was in charge of the division of operations?

Mr. GILLEN. Yes, sir.

The CHAIRMAN. And he was an experienced operator of ships, was he not?

Mr. GILLEN. So I understood then and I understand now.

The CHAIRMAN. Where was his experience acquired, according to your understanding or knowledge?

Mr. GILLEN. Well, as the general manager, and later the head of one of the biggest operating companies on the Pacific coast, I think it was the Pacific Mail. He was for a great many years with Grace & Co.

The CHAIRMAN. Who preceded him?

Mr. GILLEN. I think, though I do not know, that he followed Ed Carey, of Chicago.

The CHAIRMAN. Was he a steamship man?

Mr. GILLEN. Ed Carey came from the Barker & Haskell Car Works

The CHAIRMAN. And who did he follow, if you know?

Mr. GILLEN. I do not know. Mr. Carey was there for a long period.

The CHAIRMAN. It is the fact that this Division of Operations had no accounting system, even when it had an experienced operator like Mr. Rossiter in charge of it, and that they only had audited 8 out of 8,000 voyages, is it not?

Mr. GILLEN. It is. I desire in that regard to put in the record Col. Abadie's report: "Condensed Report of E. H. Abadie, General Comptroller of the United States Shipping Board Emergency Fleet Corporation, February, 1920"; and "Résumé of Vital Matters Needing Immediate Consideration, General Comptroller's Department," dated March 27, 1920, submitted by him.

(The documents submitted by the witness are here printed in full, as follows:)

CONDENSED REPORT OF E. H. ABADIE, GENERAL COMPTROLLER OF THE UNITED STATES SHIPPING BOARD EMERGENCY FLEET CORPORATION.

FEBRUARY 27, 1920.

OFFICE OF GENERAL COMPTROLLER CREATED.

The office of general comptroller was created on September 19, 1919; and on October 29, 1919, by an amendment to the by-laws of the corporation, the responsibility for the formulation and administration of the general accounting policy of the corporation was vested in this officer. To effect a centralized control of the finance and accounting of the Division of Construction and the Division of Operations, the general comptroller promptly assumed direction of the home and district organizations

of the finance division of the Division of Construction, and the comptroller's office of the Division of Operations. These organizations had previously functioned independently.

CONTROL BOOKS FOR ENTIRE CORPORATION.

The General Comptroller began at once to set up control books of accounts for the entire corporation. Notwithstanding most earnest and concentrated effort, this task has progressed slowly because of the inadequacy of the accounting records set up during the first year following the declaration of war. Inability to carry on the accounting procedure defined, caused arrears of accounting work. This had virtually affected the completion of setting up the control books. However, we have at this date virtually completed our work, and it is expected that we will have the control records in ledger form within approximately 30 days.

ACCOUNTING SYSTEM, DIVISION OF CONSTRUCTION.

The accounting and auditing system of the Emergency Fleet Corporation was created almost in a day. Without any opportunity for an orderly development, it had thrust upon it the responsibility for accounting control over expenditures that have exceeded \$3,000,000,000.

It was necessary to organize not only a home office force, but to organize district forces covering the shipbuilding communities on the Great Lakes and all the coasts of the United States.

In contrast with other Governmental agencies established for war purposes, the Fleet Corporation had no nucleus from which to build. Because of its character as a commercial organization it could not employ the simple system of accounting used by Government departments.

Despite the pressing demands of the war program, the accounting system was planned in accordance with modern principles. Before it could be put into effective operation it was overwhelmed by the tremendous requirements of the construction campaign.

Enormous expenditures were made before it was possible to account properly in accordance with the established accounts.

GOOD ACCOUNTING SACRIFICED TO SPEED OF PRODUCTION.

The accounting and auditing division attempted to enforce good accounting, but was forced to sacrifice proper procedure to the requirement of the construction division; the accounting should not interfere with shipbuilding. The cry was for ship production, and there was no toleration for the man who wanted to count dollars.

Contractors who were paid to the limit of their earnings insisted on further payments, and in order to keep them going payments were directed without strict regard to contracts, and with no proper basis for accounting for the payments. Advances in excess of progress payments due per contract were made from time to time, which, in the summer of 1918, is estimated to have reached a sum in excess of \$100,000,000, and even to-day we find many contractors retain accounts in excess of their contract earnings.

These advances were frequently used for purposes other than for which they were advanced. It was an hour of necessity which knew little of the orthodoxy of business. Confusion of accounts were inevitable under the conditions that prevailed. Many accounts became hopelessly involved. It was not possible to make a proper distribution of costs among individual hulls, or even to distribute between hull costs and the cost of shipyard plants.

GREAT ACCUMULATION OF UNDISTRIBUTED EXPENDITURES.

The result was a great accumulation of undistributed expenditures, amounting on July 31, 1919, to \$508,481,113.04 in the districts and \$53,196,166.75 in the home office.

Since that time \$225,502,516.48 has been distributed from the district accumulation and \$92,146,102.04 from home-office accounts. The amount of \$92,146,102.04 referred to as distributed is made possible by the fact that the balance shown in this account of \$53,196,166.78 is a net figure, and the actual amounts necessary to be analyzed and distributed included large credits, also current charges, to this account, between the dates under comparison.

The accounting organization had an almost superhuman task. Men were not available; it was impossible to obtain competent help. Starting with only six men in June, 1919, it was never able to catch up with the requirements. While the back work is not yet up to date, it is progressing rapidly.

With expenditures several millions of dollars every balance day, it would have been difficult enough to keep a simple account of receipts and disbursements. Notwithstanding the fundamental accounting principles established were doggedly adhered to.

SETTLEMENT OF CANCELLATION CLAIMS.

The absence of a definite and continuing policy governing the relationship of the accounting division to the settlement of cancellation claims increased the difficulties. Instead of coordinated effort, with an audit proceeding concurrently with the negotiations for settlement, the negotiations were usually made without reference to the accounting division, and later that division was suddenly called upon to produce at once audit reports that would require weeks to make.

The general comptroller's department has succeeded in handling claims referred for audit. These audits have resulted in material reductions of the amounts claimed. In 3 of the 11 districts these reductions have amounted to more than \$3,000,000.

WAGE REIMBURSEMENT CLAIMS.

One of the difficult problems of the general comptroller's department is the determination of proper rates of reimbursement to shipbuilders for the increase of from 35 per cent to 50 per cent in wages since the beginning of the shipbuilders progress. The Fleet Corporation must pay the authorized increases, which have been estimated at from \$250,000,000 to \$300,000,000.

The contractors have naturally tried to collect from the Fleet Corporation as much of the excess cost of labor as they could. This effort has given rise to claims of the most diverse, ingenious, and intricate character, and it has been the duty of the general comptroller's department to try to reduce these claims to reasonable terms, and to settle them on uniform general principles.

The one broad principle as formulated by the general comptroller, which underlies all settlements with contractors is:

"The Emergency Fleet Corporation will reimburse contractors only for the increased labor cost resulting directly from the decisions of the Shipbuilding Labor Adjustment Board, from or authorizations by proper officers of the Emergency Fleet Corporation."

ACCOUNTING FOR VESSEL OPERATIONS.

The Shipping Board began to operate vessels in May, 1917. Beginning with 7, it was controlling the operations of 50 vessels by October, 1917. These were all seized German vessels.

On November 1, 1917, the office of comptroller, Division of Operations, was created. At this time New York and San Francisco were the only ports at which branch offices had been established. Accounting transactions covering the operation of vessels managed by these offices were reported to the Comptroller of the Division of Operations at Washington. However, accounts were not received by the comptroller until about January 1, 1918, at which time accounting records, in accordance with steamship practice, were set up. Prior to this time the records in the Washington office carried cash transactions only.

The board adopted the policy of assigning vessels to agents for management and operation about April 1, 1918. These agents rendered their accounts to the comptroller at Washington, until May 1, 1919, when a decentralization plan was inaugurated.

Under this plan managers and operators were required to render their accounts to district offices, located at Boston, New York, Philadelphia, Baltimore, Norfolk, New Orleans, San Francisco, and Cleveland. An office for handling foreign business was established at London.

VOYAGE ACCOUNT DRIVE.

Up to October 1, 1919, there had not been rendered accountings on voyages that would permit our preparing a profit and loss statement as of June 30, 1919, to bring these voyage accounts in a drive was started on October 6, 1919, which, so far as the field work was concerned, was ended on February 20, 1920. During this period there was obtained 5,724 accountings on 1,215 vessels, representing \$190,979,497.40 in revenue, and \$77,629,797.98 in expense. During the same period there was collected in cash more than \$120,000,000. We have now received in the home office more than 4,000 complete voyage accounts on 1,300 vessels, representing \$417,521,952.17 in gross revenue. A large force temporarily employed for the purpose is auditing these accounts, and preparing operating cost statements by vessels and voyages thereof.

UNIFORM SYSTEM OF ACCOUNTING.

On January 1, 1920, managers and operators were required to open uniform books of account, and to report daily the cash receipts and disbursements and balance on hand. They were also required to submit monthly trial balances beginning January 31, 1920, permitting the compilation of a monthly profit and loss statement of operations.

ACCOUNTING FOR REPAIRS.

A bureau of repair cost audit was organized in the fall of 1918. It is difficult to present figures that will reflect the cost of repairs to the fleet prior to that time, for the reason that the repairs on a very large number of vessels in the Army and Navy service were made by these departments, and not carried into our accounts. For the year ending December 31, 1919, there was operated commercially a monthly average of 5,429,788 tons, upon which were made repairs amounting to \$36,882,426.13, an average of \$0.566 per dead-weight ton per month.

ACCOUNTING FOR REQUISITIONED VESSELS.

Under the presidential proclamation of October 13, 1917, the corporation became the charterer of approximately 650 vessels. No machinery was set up to handle accounting on these vessels, or to pay the charter hire due owners under the requisition charter, until the beginning of the year 1918. At a meeting of the owners and the comptroller, Division of Operations, it was agreed that accountings would be submitted without supporting documents, and that the audit of these accounts would be made in the office of the steamship companies.

In January, 1918, the force in this section consisted of two employees, but the setting up of accounting records was not started until April, 1918.

The method of setting the accounts in Washington, whilst the audits were being made mostly in New York, proved cumbersome, and to obviate this difficulty the accounting on these vessels was transferred from Washington to New York in May, 1919. The cases of delay in audits have been gradually eliminated. The work is now proceeding in an orderly manner, and we will shortly be relieved of this accounting procedure entirely.

Gross revenue from operation of requisitioned vessels on voyages completed prior to June 30, 1919, amounted to \$140,252,279.02, and expenses amounted to \$117,886,493.08, leaving a net profit for this period of \$22,355,785.94.

CENTRALIZATION IN WASHINGTON OF HOME OFFICE ORGANIZATIONS.

On February 2, 1920, the home office organization of the Construction Division was moved from Philadelphia to Washington, and located in the same building with the home office organization of the Division of Operations, bringing the main offices of all the accounting divisions under the direct supervision of the general comptroller.

ORGANIZATION.

The problem of organizing the general comptroller's department is one of extreme difficulty, because of the complicity and variety of its functions, size and wide geographical distribution. A comprehensive plan for the complete organization and coordination of activities and methods has been set up, and is in process of application.

BUDGET.

The administrative budget requirements for the general comptroller's department, in schedule form, will be presented in the near future.

E. M. ABADIE, *General Comptroller*.

MARCH 27, 1920.

GENERAL COMPTROLLER'S DEPARTMENT.

RÉSUMÉ OF VITAL MATTERS NEEDING IMMEDIATE CONSIDERATION.

On September 1, 1919, E. H. Abadie was made comptroller, Division of Operations, and on September 19 he was made general comptroller of not only the Division of Operations, but likewise of the Construction Division and all other divisions of the Fleet Corporation, and also of the United States Shipping Board.

Judge Payne had then as a special assistant a Mr. Brown, of Marwick, Mitchell, Peat & Co., as an advisor of finance acting in the capacity of chairman of the Committee of Finance and Accounting. Said committee on or about September 10 determined that in the Division of Operations we lacked 375 men to keep up the current work alone. The following work was found greatly in arrears:

VOYAGE ACCOUNTS.

On September 10 not one voyage account statement of over 4,500 voyages had been made up. During the month of September it was found that there was sufficient data at hand to complete but 43 voyages. This resulted in memorandum and plan of procedure dated September 13, approved by the chairman October 2. A week later we inaugurated the voyage account drive.

RESULTS VOYAGE ACCOUNT DRIVE.

Necessary data to complete voyage account statements for sailing prior to July 1, 1919, was obtained. Gross revenue totaling \$189,000,000 was recovered. Voyage accountings were found totaling \$78,000,000, bringing in additional net revenues of \$115,000,000; at the same time there was collected in cash the sum of \$120,000,000. This was all back work, and in addition to the regular force required, an average of 800 men for 90 days. As 800 qualified men were not procurable, I was forced to take men from the current work. It naturally put the current work behind. The drive was conducted simultaneously in the eight districts of the United States, in which are located the district offices of the Division of Operations. This voyage account drive was carried on only with owned vessels allocated to operators or managers, and covered sailings prior to July 1, 1919. A drive is now being carried out on a restricted scale in an effort to bring in voyage results for sailings subsequent to July 1, 1919, to January 1, 1920.

BUREAU OF VOYAGE AUDITING.

In the bureau of voyage auditing, voyage cost accountings are audited and made up into cost statements showing voyage results. We have been able to carry on this work with only 350 men, of which 100 are unreliable. Fifty of the latter are being tried out in other departments where they may be utilized, otherwise dropped. The other 50 may also have to be transferred or dropped unless they improve. It is rather disheartening to find that we can not get this work out in 90 days as planned. It is very likely that it will consume six months from this date unless we can get additional competent employees.

REQUISITIONED DRIVE.

On January 1, men were returned to the requisitioned vessel section and approximately 100 men are making a drive to audit the requisitioned vessel accounts, which represent something over \$165,000,000. On March 23 the condition of the progress of the requisitioned vessels show that it would require at least three months to complete the audit, using approximately 100 men. These auditors are required to go into the office of the operators who have accountings on requisitioned vessels. For greater details, see report to the general comptroller dated March 23 on this subject.

REPAIR BILLS.

During the month of May, 1919, invoices received for repairs totaled approximately \$1,000,000 and for the month of January, 1920, over \$6,000,000, representing a 400 per cent increase in nine months. On October 1, 1919, nearly \$14,400,000 in repair bills were in arrears. Contractors were refusing to extend the corporation more credit or to take any more repair work. Payment of 75 per cent on account was made and extra employees obtained to keep up the current work and bring up the back work. The back work has been reduced to approximately \$5,000,000 while current bills are being kept up to date. Within 90 days the bills in arrears will have been cleared up, although the volume of repairs is still increasing. We need about eight employees in this bureau to carry out this program and keep abreast of the current work, assuming that the current work does not increase and maintains about the average of the last two months. See supporting memorandum of March 23 from the auditors of repairs.

BUREAU OF GENERAL AUDITING.

Work in this branch was behind on September 1. Work in the charter hire branch is now up to date. Same can be said of supercargo branch, pay roll, transportation, and the miscellaneous general expense branch. They are all working on current work, this condition having been reached about the first of the year.

BUREAU OF ACCOUNTS.

The billing of accounts receivable is considerably behind. This represents work in arrears at about \$8,000,000 on October 1, while on March 1 it stood at approximately \$25,000,000, because of data and records obtained from the voyage account drive. We are billing at the rate of about \$4,000,000 per month. There are many contributing causes to the delays in this bureau, as the other departments whose work is in arrears reflects in this bureau. To keep up with the current work in this department and dispose of the back billing, at least a period of six months will be required and will require the addition of an extra staff of employees. We need an additional force of from 15 to 20 billing clerks, competent to analyze accurately and render invoices. Further details can be had by referring to memorandum from the assistant chief accountant, dated March 24, 1920.

BUREAU OF VESSEL MOVEMENTS AND ACCOUNTING RECORDS.

The work in this department is probably 90 days in arrears, which in turn retards the work of the entire bureau. At the same time due to insufficient force, we are informed, the districts and home offices of the supervisor's department can only keep abreast of current work though the present force is 90 days in arrears. In other words, they are handling the work promptly as it is received, but they should be up to date and not 90 days behind.

On September 19, 1919, Col. Abadie was made general comptroller of not only the Division of Operations but of the Division of Construction of the Fleet Corporation. Responsibility was increased fourfold and much the same condition confronted the added divisions as was found in the Operating Division of the Fleet Corporation.

CENTRAL CONTROL.

On assuming the general comptrollership, it was found that no such office was provided by the by-laws of the corporation, hence the duties of such office had to be defined. Accordingly the general comptroller's recommendations with modifications were accepted as a by-law of the corporation on October 29. The addition of the necessary force of employees which should have started two years ago required the setting up of complete accounting controls for the Shipping Board, the Division of Operations and Construction, and all other divisions that tied in and were a part of the Fleet Corporation or the Shipping Board. The establishment of these, and especially the selection of personnel on account of limitation of salary, was an exceedingly difficult task and not accomplished to the best interests of the corporation. Nevertheless as a result of what has been done, we were able to render proper statements for the corporation as a whole from our control records as of December 31, 1919, and January 31, 1920. In setting up this control it required the addition of 224 employees to the staff in the Washington office.

CONSTRUCTION DIVISION.

On October 1, 1919, it was found that the following important operations were badly in arrears: Billing to the districts. This is vital, as on it depends a proper settlement with the contractors. We need 30 employees capable of analyzing and auditing to bill out to the districts and from the districts to contractors material, equipment and machinery purchased in bulk and shipped to the contractors in various parts throughout the country. A drive was made on this billing October 1, effort being made to bring up the back work prior thereto. Billing in arrears as it stands at the present time represents about \$180,000,000. We should have 30 capable and experienced employees in this section. On one account alone known as the home office "Machinery under construction account" 15 additional employees are required.

INVENTORY ACCOUNTS.

These accounts are in a deplorable state. We show assets of \$177,000,000. It is known that these accounts do not reconcile with the physical inventory in any one case. Complete reports have been made of the inventory accounts of the home office and district records as at June 30, 1919, by Whittlesey, Wythes, and Wilson which show the necessity for immediate analyzation of these accounts by a competent staff. The physical inventories are now being taken in the field by the Supply and Sales Division and when these are completed, which it is claimed will be by May 1, adjustment of these inventory records can be made, and adjustment made with the subinventory accounts and records in the districts, which again shall be brought into adjustment with the physical inventory record. It is estimated that about 500 men a day, or 10 special men for 60 days will be required to clear this account.

COMPLETED MACHINERY ACCOUNT.

It is estimated that it will require over 300 men a day or 10 special men for approximately 60 days to clear this account.

HOUSING PROJECTIONS.

We have just secured the certification of the completion date of the housing project and will now proceed to recover for the corporation moneys due it, but which by the terms of the construction housing contract could not have been collected before. The auditing and adjusting of these accounts and bringing them up to date will require at least 20 experienced men probably 60 days.

MACHINERY UNDER CONSTRUCTION ACCOUNT.

Machinery under construction is probably the most complicated of all accounts. Machinery under construction has been cleared within the past three months of probably \$100,000,000. There still remains some \$50,000,000, and it will take as long if not longer to clear this account because it represents the most difficult items of analyzation. Competent employees on this work in Philadelphia refused to move to Washington. Practically no work is being done in the clearing of this account at the present time. We should have 40 employees continuously at work until the account is cleared. Ships contractors' construction work is now nearing the end. To-day we are considerably behind in auditing and preparing final statements for the purpose of settlements with contractors. I have urged the establishment of a calendar so that we could take up these audits for settlement in accordance with calendar program for the construction claims board. It is impossible at this time to even approximate the number of men and time to complete this work.

The CHAIRMAN. Have you got any record there to show how many ships this concern with which Mr. Rossiter is now connected is operating?

Mr. GILLEN. I never have had occasion to make any investigation of Mr. Rossiter, nor of his connections, and whatever I say here merely comes in answer to the questions.

The CHAIRMAN. Then you have no information on that?

Mr. GILLEN. I have no information except the personal information you pick up in the discussion about the Shipping Board, and his general reputation.

The CHAIRMAN. This morning Mr. Steele asked you a general question, which I will ask him to repeat.

Mr. STEELE. You may recall that I asked you this morning, what as a result of your long experience here with the Shipping Board, you had to suggest in a constructive way, to remedy these things which you have detailed, to which objection has been made?

Mr. GILLEN. I would ask for a recess of five minutes until I make my notations here, and then I will discuss it; because if I discuss it, since I am leaving you, I would rather give you the information I have. It will take me a few moments here.

The CHAIRMAN. Mr. Gillen, if you will do that, we have another witness whom we can call, who probably will not take over 10 or 15 minutes.

Mr. GILLEN. Very well, I will sit right down here and block it out

TESTIMONY OF MR. BERNARD S. VAN RENSSELAER.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Your name, Mr. Van Rensselaer?

Mr. VAN RENSSELAER. Bernard S. Van Rensselaer.

The CHAIRMAN. What is your occupation or profession?

Mr. VAN RENSSELAER. I am a lawyer.

The CHAIRMAN. And your residence?

Mr. VAN RENSSELAER. Rio de Janeiro, Brazil.

The CHAIRMAN. At one time, Mr. Van Rensselaer, did you make an investigation of matters at Rio with reference to the furnishing of supplies, fuel, or equipment to ships of the Shipping Board, and repairs to those vessels at Rio?

Mr. VAN RENSSELAER. I did.

The CHAIRMAN. With reference to the steamship *Dio*, did you make any investigation of matters affecting that craft?

Mr. VAN RENSSELAER. My office did; that is to say, I am in charge of the branch office of Curtis, Mallet-Prevost & Colt, of this city, who are engaged, among other things, in international law. In February of 1920 the American consul at Rio de Janeiro requested our office to assist him in the prosecution of an investigation into ship repairing conditions.

I was assisted in that work by Mr. Frederick W. Whitney, of this city, an admiralty attorney, who is associated with us. Mr. Whitney had more to do with the *Dio* transaction than I did, but I am familiar, through Mr. Whitney, with the matters that were developed.

We first learned about the *Dio* business through an ex-employee of the Standard Oil Co., who came to our office and made a confession. That was in the course of the general investigation. Do you care to have the details of that, or are they already on the record?

The CHAIRMAN. We have had testimony to the effect that that involved the payment of some \$9,000 for a supply of oil, of which several hundred gallons was not actually furnished.

Mr. VAN RENSSELAER. That is correct.

The CHAIRMAN. And that the Shipping Board paid for the full supply, but the value of the amount not furnished was divided between three or four persons aboard this vessel.

Mr. VAN RENSSELAER. That is what the evidence in our possession shows.

The CHAIRMAN. And you have knowledge that the parties receiving this money were later indicted?

Mr. VAN RENSSELAER. Yes.

The CHAIRMAN. And is it a fact, do you know, that the indictments were secured upon the information which your office furnished the authorities here?

Mr. VAN RENSSELAER. That is to say, we passed on the information.

The CHAIRMAN. You made the investigation?

Mr. VAN RENSSELAER. We made the investigation for the consul, and he transmitted the affidavits and depositions, and upon the strength of those affidavits and depositions the indictments were found, as I understand. I might say, of course, Mr. Meehan made a very careful and thorough supplementary investigation here. We only developed the leads and got the confession of the ex-employee of the Standard Oil Co. It was Mr. Meehan's very excellent work that secured the testimony of the captain and the chief engineer. We do not want to take the whole credit for it.

The CHAIRMAN. You did make an investigation of the general ship service and repair conditions in Rio, at the request of the consul there?

Mr. VAN RENSSELAER. We did.

The CHAIRMAN. And did you complete that investigation?

Mr. VAN RENSSELAER. We did not, no; we withdrew from it.

The CHAIRMAN. Did some official of the American embassy there have knowledge of that investigation?

Mr. VAN RENSSELAER. He did.

The CHAIRMAN. Mr. Craig Wadsworth?

Mr. VAN RENSSELAER. The chargé d'affaires, at the American embassy.

The CHAIRMAN. Mr. Craig Wadsworth?

Mr. VAN RENSSELAER. Mr. Craig Wadsworth.

The CHAIRMAN. Will you state briefly what you found with reference to conditions there relative to ship service and repair conditions, as far as your investigation went.

Mr. VAN RENSSELAER. We secured depositions from 20 or more different witnesses. Those depositions indicated that there was a ring in existence in Rio de Janeiro, which had for its purpose the defrauding of American vessels, particularly those belonging to the Shipping Board. The ring was made up, so far as we could learn from these depositions which we took, of ship repair men, ship chandlers, and employees of shipping agencies, who it was alleged were in the pay of one of the repair men, and other persons in the city of Rio de Janeiro.

The first evidence of the existence of this ring, or, to put it in another way, I will say that the first activities on the part of this ring, appeared from the affidavits to have taken place in the early part of 1919, either in January or February, shortly after the armistice, and thereafter practically up to the time that we commenced this investigation. The affidavits alleged that there were very few American Shipping Board vessels which came into the port of Rio de Janeiro that were not defrauded with respect to either repairs or chandlery bills. We obtained certain figures which we took from the books of account of one of the ship repair men who appeared in the United States consulate and permitted us to inspect some of his books, and those figures indicated that the Shipping Board had lost very large sums of money, indeed.

One of these repair men admitted to me, in the United States consulate, that he had given a certain American Master about 27 contos of reis, Brazilian currency, which would be more or less \$7,500. I asked the repair man whether that had been in the nature of a gratuity. He laughed and said he was too old a bird to be caught in that way; that it was given for value received. I asked him what the consideration had been for the payment, and he said that he had been repairing this particular vessel and that the captain had assisted him in stepping a mast, and had lent his crew, their services, and had otherwise hurried the work, and therefore he had given to the master his real profits on the job. The total bill on that vessel, as I recall it, was considerably in excess of \$50,000. I do not want to be certain about that, but it is approximately that.

We got evidence intended to show that vessels were being charged anywhere from five to six or seven times the amount of work done. We obtained the statements of persons who had actually seen or were alleged to have seen money passed by the repair men to masters and chief engineers, upon consideration that the masters and chief engineers would either approve improper bills, or in some cases even sign bills in blank; as they did in the *Dio* case.

In one case a ship repair man who farmed out most of his work, put in a very large bill for electrical supplies. Now, I am speaking from memory, because I have not got my data before me. That bill was for, I think about \$18,000, as I recall it; \$1,800, or \$18,000, but that is not the vital thing. The real point was that when we went to the man who had actually done the work, and examined the bills that he had rendered to the ship repair man who had farmed out the sub-contract, the actual cost of the work had been either \$2,000 or \$200, so that the Shipping Board was being charged about nine times the actual cost of the work at fair prices.

We also got evidence that tended to show that when an American boat came in to Rio de Janeiro, these repair man and chandlers would not wait to have her come alongside, but they would send launches out with runners, and make propositions to the captains, either to have unnecessary work done on board, or to buy supplies at outrageous prices.

Our evidence tended to show that most of the corruption occurred in cases of red ticket men—red ticket officers.

The CHAIRMAN. What are those?

Mr. VAN RENSSELAER. Red ticket officers, as I understand them, are masters and chief engineers who are not citizens of the United States, but who have been given temporary licenses under, I think the Panama act, wasn't it? Or one of the pieces of early war legislation.

We also obtained depositions which alleged that these repair men had organized the thing in such a way that when bids were called for on ships, they were always able through men that they had planted in these ship agencies to obtain information as to their competitors' bids. It was alleged that they would then put in a bid for a lower sum than the bids of their competitors, and would then make it up by submitting a bill for extras for an excessive amount, which bills would be approved by the masters and chief engineers.

The CHAIRMAN. Was a report of these things and these depositions submitted to the Shipping Board agent there?

Mr. VAN RENSSELAER. During this investigation the American consul was representing the Shipping Board. The Shipping Board had no agency there. We withdrew from this matter in the middle of March, and declined to proceed with it. In April of 1920 a Shipping Board agent arrived. We then—when I say "we" I mean my firm—got back into the general investigation more or less actively in connection with the American Embassy, with whom we were then working. We had certain conferences with the Shipping Board agent about conditions, and tried to show him the necessity of continuing the investigation. He took the position that there was no sense in "post morteming," and that it was best to let dead dogs lie. Before we had withdrawn from the case we had prevailed upon the American consul to issue an order prohibiting a certain repair man from receiving any more business on American vessels.

The CHAIRMAN. What repair man?

Mr. VAN RENSSELAER. M. R. Millar, who has since been indicted in the southern district of New York. He is a Scotchman doing business in Rio de Janeiro. Since that time I am informed that the Shipping Board agent has given other repair jobs to Millar.

The CHAIRMAN. Are there any questions, Mr. Steele?

Mr. STEELE. As I understand it, this matter was covered by the testimony of Mr. Meehan last week?

Mr. VAN RENSSELAER. I did not hear Mr. Meehan's testimony.

Mr. STEELE. I understood you to say that you did, that he covered it fully?

The CHAIRMAN. Mr. Meehan covered the investigation, Mr. Van Rensselaer said.

Mr. STEELE. How many indictments have been found on these charges?

Mr. VAN RENSSELAER. Three indictments, as I understand it, have been found here.

Mr. STEELE. Have the cases been tried?

Mr. VAN RENSSELAER. Two of the defendants have taken pleas of guilty, and have received short sentences.

Mr. STEELE. These conditions, you say, prevailed from January last on?

Mr. VAN RENSSELAER. Up to about February. I think that it may be a little better now.

Mr. STEELE. Your information is based on affidavits, you say you received?

Mr. VAN RENSSELAER. Affidavits that we took personally in our office and in the United States consulate.

Mr. STEELE. Investigation, you say, was conducted by the American consul at that point?

Mr. VAN RENSSELAER. Under the auspices of the American consul, although our office did practically all the work; his health was not particularly good.

Mr. STEELE. And the American embassy there cooperated with you, as I understood you to say, or had knowledge of it.

Mr. VAN RENSSELAER. The United States embassy was very much in favor of the continuation of the investigation.

Mr. STEELE. Since then there has been a Shipping Board representative there, you say?

Mr. VAN RENSSELAER. The Shipping Board representative arrived about the 1st of April.

Mr. STEELE. Outside of the awarding of this contract, as you say, to Millar, have you any knowledge of the continuance of these practices? You say they were in January and February of last year.

Mr. VAN RENSSELAER. January and February and March, the early months of this year. Well, I left there the latter part of August, and I do not know what the condition is there, but I am inclined to believe that we have not got all the bag.

Mr. STEELE. Have you any personal information on it, or is it simply a belief?

Mr. VAN RENSSELAER. Well, the depositions speak for themselves. They are with the State Department, and they are available.

Mr. STEELE. I think that is all.

Mr. VAN RENSSELAER. I would like to make this one statement, if I may, which may be of interest to you gentlemen who are investigating shipping conditions; and that is that we are absolutely helpless down there in South America unless we have got a good popular service. As I say, up to April 1 of this year the consuls were charged with the representation of the Shipping Board.

In Brazil, as I recall it, we are entitled to one consul general in Rio de Janeiro, and we are entitled to full consul, I think, in Santos, San Paulo, Bahia, Pernambuco, and Para. At the present time we have no consul general in Brazil, and we only have one full consul. I think all the others are either young vice-consuls or consular agents.

Now it is exceedingly unfair to entrust to young men, 22 or 23 years of age—most of the vice consuls are about that age—the important duties which they are called upon to perform in these very important coasts. It is not fair to the men and it is not fair to our business interests, and we have all felt that very much indeed. We have not had a consul general in Rio since Mr. Morris Gottschalk unhappily lost his life on the *Cyclops*. He was a very great loss to American interests in Brazil.

Mr. STEELE. Let me ask you right there: Do these conditions prevail with reference to shipping generally around Rio?

Mr. VAN RENSSELAER. Well, you mean the conditions of corruption, and so on?

Mr. STEELE Yes; that you have described.

Mr. VAN RENSSELAER. I do not know at first knowledge, but I have received reports from Buenos Aires and Montevideo to show that they exist, possibly to a lesser extent; but when you put red-ticket men on the trips and you have got young, innocent, or inexperienced consuls representing the Shipping Board, and you turn the agencies of these ships over to British agencies who have got no interest in protecting the American interests, you are at the mercy of local conditions.

(At this point the committee took a short recess.)

The CHAIRMAN. You received a letter, which refers to the investigation that was conducted by your office, from Mr. Craig Wadsworth, did you?

Mr. VAN RENSSELAER. I did.

The CHAIRMAN. Will you read that letter, please, for the record.

Mr. VAN RENSSELAER (reading):

EMBASSY OF THE UNITED STATES OF AMERICA,
Buenos Aires, August 11, 1920.

DEAR SIR: It was my intention of writing you before my departure from Rio de Janeiro, expressing my satisfaction with the work done by your firm during the recent shipping investigation conducted by Consul Haeberle, and thanking you for the assistance you so generously rendered me afterwards during Mr. Haeberle's absence, when I practically assumed charge of the entire matter on his behalf.

As I was in constant touch with the consul and the shipping committee of the chamber of commerce, I fully realized the value of the assistance you had rendered the consulate general up to the time of your withdrawal from the case, when the investigation ceased.

I consider the services you rendered most patriotic, disinterested, and efficient, and that your firm is entitled to a large share of the credit for such results as were accomplished. I regretted your withdrawal, but we fully understood your reasons for taking that course and refusing to resume your activities as legal advisers to the consul.

After a conference with Mr. McGovern, the chairman of the shipping committee, during which it was decided that a continuance of the investigation was highly desirable, I drafted a telegram to the department for Mr. Haeberle's signature and sent it to him in the country for his approval. In his telegram I suggested that you be engaged by either the department or Shipping Board as special counsel to prosecute the inquiry, and to report directly to the department or to the Shipping Board. I considered you the only person in a position to carry the investigation to a successful issue. I stated to Mr. Haeberle in my letter inclosing a draft, that I was most anxious for several reasons that the matter be no longer connected with either the embassy

or the consulate general. This telegram, as I informed you, was not sent by Mr. Haeberle, who returned to Rio de Janeiro the following day and resumed his duties. He informs me he had other plans.

Some time after Mr. Morgan's return and I had ceased to be charge d'affaires, I saw Mr. McGovern and asked him if the investigation had been resumed. He replied not that he was aware of. I deeply regretted to hear this, for I considered that at the time the investigation ceased it was incomplete, and that the information you possessed led to the doors of various ship agencies and other persons whose innocence or guilt should have been established.

Permit me to thank you again for your kindness and courtesy.

Very truly, yours,

CRAIG W. WADSWORTH.

To Mr. BERNARD VAN RENSSELAER,
66 Rua General Camara, Rio de Janeiro, Brazil.

The CHAIRMAN. Are there any questions with reference to the letter Mr. Steele?

Mr. STEELE. No questions.

The CHAIRMAN. That is all Mr. Van Rensselaer.

TESTIMONY OF MR. MARTIN J. GILLEN—Continued.

The CHAIRMAN. Mr. Gillen we are ready for your reply to Mr. Steele's question. Do I understand that you would prefer to answer the question later, rather than give any reply now?

Mr. GILLEN. I would prefer answer the question later, in a written statement to you. However, I think there are two things I would like to say right in this connection now, after what has been said here. I think the first big thing that is necessary to be done is to remove from the Shipping Board jurisdiction over all of the balance of the construction, all of the supplies and sales, the balance of the settlements in the case of claims, and to remove from the Shipping Board the collection end of the back receivables and back accounting.

In other words, have Congress create as quickly as possible a small new corporation, liquidating corporation, and pick out five outstanding business men, irrespective of politics, to do the clean-up job.

The division can be made so far as accounting is concerned, with very little difficulty, by Mr. Tweedale. The balance of it, namely, the accounting end of it is for the Shipping Board, because they have an accounting division that does nothing else but take care of operations in the present Shipping Board. Thus, you will enable the Shipping Board, the new board that will come in, to begin to perform at once the natural functions of handling the big going jobs.

I know what plan the Admiral has for the new board of several men, for through Mr. Beck he drew up a chart of the duties of each commissioner, but since then I have further thought on that, I am of the opinion that the six men outside of the chairman, there should be allocated to each member of the new board one particular piece of work in reference to operations. Instead of having one commissioner handle all operations, one commissioner should investigate the pier situation, and the charges for docks and should have for that purpose, for getting him up the data and the records, a high-class assistant who will go over and chart the situation for him. Another should have, for instance, supplies, and a high-class assistant who goes out and charts that situation; not as secretary, but as assistant to the commissioner. A third one, we will say, should take allocations and watch the allocations to the operators. Another should take the

question of repairs; another should take the question of stevedoring companies; another should take the question of these commissions that are being paid to the brokers.

There are about eight or nine big pieces of work that should be distributed among the new commissioners, leaving the Admiral free, as the general manager and the chairman, so that these men will, when they hold their meetings, become acquainted with the operation of these ships.

As it is to-day you have one commissioner handling all operations, and if this thing continues you are going to have the board continue to play with all of this back stuff that you still have, and that is merely a liquidating proposition. It should be cleaned out of the Shipping Board just as quickly as possible, and the Shipping Board should be made free to function. And if that is done, together with the other chart that the Admiral has for the new board, you will find that the commissioners, though they may never have had any experience, will understand what is going on, and each commissioner will be compelled to chart up that particular piece of work which is his, and thus you will have a real board of directors running the corporation.

I think that is the only suggestion that I want to make at this time, and I make it so that the newspaper men, who are following this, can have it as a part of my testimony at this time, with the new board coming on.

The CHAIRMAN. Have you any further questions, Mr. Steele?

Mr. GILLEN. I will get you the other within a week or so, but the rest of it somewhat different from this, of course.

Mr. STEELE. I think I would prefer to pursue the examination when the remainder of the plan comes in.

Mr. GILLEN. I think so, too.

The CHAIRMAN. One further question, Mr. Gillen. In reference to the operators, have you any knowledge as to whether or not out of these 176 operators who are operating Shipping Board ships, there are not a number who may be classed as irresponsible, inexperienced operators?

I think there are a great many that are irresponsible from the standpoint of ability and organization, to handle these ships. And then I point out to you that if you take any one of the Southern ports, for instance, in Charleston you have 10 operating companies. I know that no examination of those operating companies has been made to see whether or not you can reduce in Charleston your operating companies to two or three. You have got a duplication of overhead. If Henry Ford had an agency down there, he might have two agencies, one for his tractors and another for his motor cars, but he certainly would not have the overhead of many companies handling his product.

Mr. Donald stated to me one day that there were seven operating companies in New York City on one berth, that would be one route. Now you can easily see that you have got seven operating companies competing against each other to get freight, and that means that if the freight is a little bit light you are going to have a great many boats lying idle, while the seven operators are trying to fill seven boats. Now there ought to be one, so far as the Shipping Board is concerned, in New York City, unless it is too heavy a trade route;

someone should go in there and find out how many there ought to be to cover that berth, and then they should ruthlessly cut down these operators.

The CHAIRMAN. The Government is paying the bills, of course.

Mr. GILLEN. The Government is paying the bills for the competition, and the Government is paying for the large overhead that is being maintained.

The CHAIRMAN. I think that is all, Mr. Gillen. Thank you.

The committee will adjourn until 9.30 to-morrow morning.

(Whereupon, at 4.30 o'clock p. m., further hearing was adjourned to Friday, November 19, 1920, at 9.30 o'clock a. m.)

SHIPPING BOARD OPERATIONS

HEARINGS

BEFORE

SELECT COMMITTEE ON U. S. SHIPPING BOARD OPERATIONS

HOUSE OF REPRESENTATIVES

SIXTY-SIXTH CONGRESS
—
SECOND SESSION

TESTIMONY OF

Mr. CHARLES A. ELLIOTT (Recalled)
Mr. PETER J. SULLIVAN
Mr. MARTIN J. JEWEL
Capt. OSCAR O. W. PARKER
Mr. NATHANIEL EDWARD PLATT
Mr. THOMAS J. MIGGINS
Mr. GEORGE W. STERLING
Mr. J. N. PATTON
Mr. R. H. GREGORY
Mr. DANIEL C. COLLINS
Mr. MORRIS M. McLAUGHLIN
Mr. EDGAR F. LUCKENBACH
Mr. ALEXANDER M. FISHER (Recalled)
Mr. ALFRED W. McCANN
Mr. TUCKER K. SANDS
Mr. EDWARD S. MALMAR
Mr. JACOB NIEMAN
Mr. ADOLPH AMENDE

Mr. BENJAMIN FRANKLIN FULLER
Mr. JOHN T. MEEHAN (Recalled)
Mr. HAROLD F. HANES
Mr. BETHUEL S. OAKES
Mr. SAMUEL MARVIN HILDREATH
Mr. FRANK A. STRINGER
Mr. WILLIAM E. CASH
Mr. ROBERT I. LAGGREN
Mr. EADS JOHNSON
Mr. GEORGE S. WATT
Mr. CHARLES A. BANZHAF
Mr. RICHARD W. BOLLING
Mr. ALONZO TWEEDALE
Mr. LESTER SISLER
Mr. T. ED NEW
Mr. JOHN M. CRANOR
Mr. WILLIAM DENMAN
Mr. MARTIN J. GILLEN (Resumed)

PART 7

**SELECT COMMITTEE ON UNITED STATES SHIPPING BOARD
OPERATIONS.**

HOUSE OF REPRESENTATIVES.

JOSEPH WALSH, Massachusetts, *Chairman.*

PATRICK H. KELLEY, Michigan.

HENRY J. STEELE, Pennsylvania.

LINDLEY H. HADLEY, Washington.

TOM CONNALLY, Texas.

ISRAEL M. FOSTER, Ohio.

GEORGE H. NORTON, *Clerk.*

CONTENTS.-

PART 7.

	Page.
Amende, Mr. Adolph, Reporter for the United States Shipping Board----	2710
Banzhaf, Mr. Charles Edwin, traveling auditor, Emergency Fleet Corporation-----	2920
Bolling, Mr. Richard Wilmer, treasurer, United States Shipping Board----	2946
Cash, Mr. William E., formerly travelling auditor, Emergency Fleet Corporation-----	2825
Collins, Mr. Daniel C., chief of requisitioned vessel section, United States Shipping Board-----	2564
Cranor, Mr. John M., formerly representative of Downey Shipbuilding Corporation and Providence Engineering Co-----	3107, 3126
Denman, Mr. William, formerly chairman, United States Shipping Board-----	2600, 3166
Elliott, Capt. Charles A. (recalled)-----	2517
Fisher, Mr. Alexander M., clerk and statistician of the select committee on United States Shipping Board operations, United States House of Representatives (recalled)-----	2611
Fuller, Mr. Benjamin Franklin-----	2716
Gillen, Mr. Martin J. (resumed)-----	3170
Gregory, Mr. R. H., port steward, North Atlantic district, United States Shipping Board, New York, N. Y-----	2557
Hanes, Mr. Harold F., junior examiner, Emergency Fleet Corporation----	2768
Hildreath, Mr. Samuel Marvin, New York manager and vice president of the Belmont Packing & Rubber Co-----	2814
Jewel, Mr. Martin J., special agent, Treasury Department-----	2524
Johnson, Mr. Eads, consulting marine engineer and naval architect, New York City-----	2890
Laggren, Mr. Robert I., director of supply and sales division, eastern district, Emergency Fleet Corporation-----	2805, 2856, 2919
Luckenbach, Mr. Edgar F., ship owner and operator, New York City----	2573
McCann, Mr. Alfred W., newspaper man, New York Globe-----	2617
McLaughlin, Mr. Morris M., auditor of repairs, United States Shipping Board-----	2568
Malmar, Mr. Edward S., cashier, Corn Exchange Bank, New York City-----	2651, 2851
Meehan, Mr. John T., deputy chief, Bureau of Investigation, United States Shipping Board (recalled)-----	2734
Miggins, Mr. Thomas J., district comptroller of division of operations, United States Shipping Board, New York City-----	2547
New, Mr. T. Ed., assistant to general comptroller, United States Shipping Board-----	3082, 3125
Nieman, Jacob, jr., assistant cashier, Hanover National Bank, New York City-----	2655
Oakes, Mr. Bethuel S., sales division, Emergency Fleet Corporation-----	2800
Parker, Capt. Oscar O. W., acting port superintendent, United States Shipping Board, New York City-----	2539
Patton, Mr. J. N., acting port captain, United States Shipping Board, New York City-----	2556
Platt, Mr. Nathaniel Edward, port engineer, United States Shipping Board, New York City-----	2543
Sands, Mr. Tucker K., formerly cashier, Commercial National Bank, Washington, D. C-----	2623
Sisler, Mr. Lester, formerly Secretary of the United States Shipping Board, Washington, D. C-----	3056, 3149
Sterling, Mr. George W., district director of operations, United States Shipping Board, New York City-----	2550
Stringer, Mr. Frank A., salesman, Belmont Packing & Rubber Co., New York City-----	2821
Sullivan, Mr. Peter J., formerly special agent, Treasury Department----	2518
Tweedale, Mr. Alonzo, general comptroller, United States Shipping Board, Emergency Fleet Corporation-----	3036
Watt, Mr. George S., manager of sales and warehouse section of east-district supply and sales, Emergency Fleet Corporation-----	2904

SHIPPING BOARD OPERATIONS.

SELECT COMMITTEE ON UNITED STATES
SHIPPING BOARD OPERATIONS,
HOUSE OF REPRESENTATIVES,
New York, November 19, 1920.

The committee met in room 401, United States Post Office Building, at 9.40 o'clock a. m., Hon. Joseph Walsh (chairman) presiding.
Present also: Hon. Patrick H. Kelley, member of committee.

TESTIMONY OF MR. CHARLES A. ELLIOTT—Recalled.

The CHAIRMAN. Mr. Elliott, you said the other day that from the time you were down there in Rio, up to the present time, you had not received any of your compensation for the voyage on the *Lake Elkwood*?

Mr. ELLIOTT. I have not been paid off for the *Lake Elkwood*. I have been given at the rate of \$50 or \$100 on two different times, but am still on the articles of the ship; have not been paid off.

The CHAIRMAN. When did your service cease with the Shipping Board?

Mr. ELLIOTT. That I have not found out.

The CHAIRMAN. Did you take it up with an association here, the Neptune Association?

Mr. ELLIOTT. Yes, sir.

The CHAIRMAN. Did Capt. McGray receive a letter from the Shipping Board about it?

Mr. ELLIOTT. Yes, sir.

The CHAIRMAN. Just look at this paper which I now show you and see if it is the letter to which you refer, and if so, pass it back to me.

Mr. ELLIOTT. Yes, sir; that is the letter.

The CHAIRMAN. The letter bears at the top.

DIVISION OF INDUSTRIAL RELATIONS,
UNITED STATES SHIPPING BOARD,
Washington, D. C., March 20, 1920.

Capt. A. McGRAY,
*Neptune Association,
Room 1432, No. 15 Park Row, New York City.*

DEAR SIR: Your letter February 20, inclosing correspondence with reference to the expense claim of Mr. Charles A. Elliott, the chief mate with the *Lake Elkwood* and the *Westfield*, was referred to the Division of Operations. They advise us that the papers were forwarded to New York with recommendations that the claim be paid.

Very truly, yours,

DANAGH DE LANCEY, *Director.*

Have you taken up the matter with them since then?

Mr. ELLIOTT. Why, when that letter came Capt. McGray was in New Orleans. I went into the office in the morning, and his secretary was there, and I asked, "Have you any mail here?" He said, "Yes; here is a letter to the captain, but pertaining to you." I said, "Do you mind letting me see it?" He said, "No." I looked at the letter, and I said, "I am going to show it to Capt. Parker." He said he would if he were me. I took it to Capt. Parker, and he advised me to go to the Kerr Steamship Co. and for them to settle with me immediately. I went over there, and Mr. Leach was there, and he said, "Seeing you have taken the matter up with Capt. McGray, I will take it up with him." I says, "Capt. McGray is in New Orleans, and you will not be able to see him until Monday." He said, "That doesn't make any difference." I said, "Every day you don't see Capt. McGray it will cost you that much more." So after Capt. McGray got back he went down there at 2 o'clock in the afternoon and sat at Mr. Leach's desk for about two hours going over the accounts, and they came to an agreement with Capt. McGray if I would come up the next morning at 10 o'clock he would have the papers for me to sign and pay me in full.

I went up at 10 o'clock, and it was 1 o'clock before I saw him. When I got to him he said, "We will go over to see Capt. Parker." I said, "All right." So we went over to see Capt. Parker, and they went into the private office and left me on the outside. I was sitting next to the door, and whatever Mr. Leach said to Capt. Parker—and he has rather a rough voice—I could hear; and he said, "My advice is to settle with that man at once." Mr. Leach is an Englishman or something, and he didn't see it that way. About that time Mr. Lyons and another gentleman came in, and they went in where Capt. Parker was and where Mr. Leach was, and in a few minutes Capt. Lyons came out and said, "If we place you on another steamboat for a few days longer until Mr. Leach has time to take this matter up with Washington, will it be agreeable to you?" And he said—

The CHAIRMAN (interposing). Well, they didn't settle with you?

Mr. ELLIOTT. No, sir.

The CHAIRMAN. You have not received your money?

Mr. ELLIOTT. No, sir.

The CHAIRMAN. I believe that is all.

I would like to have Mr. Sullivan come forward.

TESTIMONY OF MR. PETER J. SULLIVAN, BROOKLYN, N. Y.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Mr. Sullivan, give us your full name.

Mr. SULLIVAN. Peter J. Sullivan.

The CHAIRMAN. What is your residence?

Mr. SULLIVAN. 801 Prospect Place, Brooklyn, N. Y.

The CHAIRMAN. What is your business or occupation?

Mr. SULLIVAN. At the present time I am connected with Jacob Wheatley, in plant-protection work, industrial plants.

The CHAIRMAN. Were you at any time connected with the United States Treasury Department?

Mr. SULLIVAN. Yes, sir.

The CHAIRMAN. In what capacity?

Mr. SULLIVAN. Special agent.

The CHAIRMAN. When was this?

Mr. SULLIVAN. Up until June 8, 1919, when I tendered my resignation.

The CHAIRMAN. How long had you been with the Treasury Department when you resigned?

Mr. SULLIVAN. I entered the Treasury Department on the 1st of March, 1908.

The CHAIRMAN. Did you as a part of your work with the Treasury Department make any investigation or inquiry into purchases by or sales to the Shipping Board?

Mr. SULLIVAN. I did.

The CHAIRMAN. Where?

Mr. SULLIVAN. At New York.

The CHAIRMAN. Were there any other Treasury representatives with you in that investigation?

Mr. SULLIVAN. On the investigation that I was conducting I had as assistant Martin D. Jewel, who was a customs agent; he was a liquidator at the time, and assigned to the special agent's office. There were a number of other agents at the time attached to the special agent's office that were conducting investigations as to Shipping Board transactions.

The CHAIRMAN. What did you ascertain with reference to overcharges, quality of material, quantity of material, and matters of that sort on your investigation?

Mr. SULLIVAN. If you will permit me to tell my story. I have not the records here with which to acquaint myself with the proper dates; they are at the customhouse, and I believe they have been subpoenaed, but my statement can be corroborated from those records.

The CHAIRMAN. Very well, go along and state what you found out.

Mr. SULLIVAN. When I first started the investigation I checked out the bids that were supposed to have been submitted to the Shipping Board by the different people who were doing business there, or who anticipated doing business with the Shipping Board. I interrogated a number of the officials; that is, employees of the Shipping Board. When I started with Mr. David Whamond, who was the purchasing agent of the Shipping Board, he remarked to me, when he heard my name and I had been introduced to him, "You look like a regular fellow." I said, "Yes, Mr. Whamond, I am. That is, when things are right they are going to be spelled that way, and when things are wrong they are going to be spelled that way." He said, "May be we can get along together." I said, "Under those conditions we can." I had been called in by the agent in charge, Mr. James F. McConnochie, who told me that I was to conduct this investigation.

The CHAIRMAN. That was the Treasury agent in charge?

Mr. SULLIVAN. Yes. I said, "Jim, I am pretty busy on a number of other matters. Nevertheless, you are the doctor, and if you want me to stop them I will take up this investigation." He said, "Well, I want you to take it." He said, "Of course, I feel there is no one who can reach you through political influence or otherwise." I said, "All right, as long as you have that confidence in me I am going ahead and will stop for no one."

Mr. Whamond took exception to my interrogating employees of the Shipping Board in my office. He wanted all interrogations and all transactions conducted in his office and in his presence. I told him it was absolutely impossible to do that, due to the fact that he was a busy man, and that that was not the proper place for an investigation to be conducted anyhow. "Well," he said, "I will go up to your office." I said, "Very well, you may listen." Then some sort of argument came up whereby it was settled by Mr. McConochie and Capt. Yates and some other captain whose name I have forgotten, but those are all in the record.

I took each and every employee and examined him as to his duties, how he secured his position, what his official duties were, and went along the general line of investigation. Whamond came up to my office one day and he said, "You little Irish s—— of a b——, if you will throw your gun and shield away I will trounce hell out of you." He put his hands up, and I jumped up and I said, "Whamond, nobody ever raised his hand to me that I did not resent it, and you are going to eat every word you have said." So I went after him, and the agent in charge went after me, but I threw him aside. And then Whamond went out in the hall. Whamond said, "You are not going to last to conduct this investigation," and he said, "I am going to see to it." "Well," I said, "I am going as far as I can on it, and you can go as far as you like."

The CHAIRMAN. Did you get to make your investigation?

Mr. SULLIVAN. Yes; but I want to get this in.

The CHAIRMAN. Well, we are not so particular about conversations. We want to know what you found, the facts, if you found any.

Mr. SULLIVAN. Well, I sent Jewel out and sent him up to Sills. He had found in the course of the examination of the books at Sills that some man, who was a representative of the purchasing department of the Shipping Board, and who had placed an order with Sills, had received a certain amount of money as commissions. As soon as he found out that the books had been examined and that it was learned he had received money, that man tendered his resignation, and, to the best of my knowledge he went down to Washington and was put on the pay roll in Washington.

The CHAIRMAN. What was his name?

Mr. SULLIVAN. His name is in the records.

The CHAIRMAN. What records?

Mr. SULLIVAN. At the customhouse. You see, I did not make the report. They did not leave me here long enough to make the report. That is the reason I wanted to tell you that conversation.

The CHAIRMAN. You were later taken off this work?

Mr. SULLIVAN. Oh, yes. I was not on it but a short time when I was taken off.

The CHAIRMAN. How long were you on it?

Mr. SULLIVAN. A little over a month.

The CHAIRMAN. Was Mr. Jewel on it the same time you were?

Mr. SULLIVAN. Yes, sir; he was under my supervision.

The CHAIRMAN. He made the report, did he?

Mr. SULLIVAN. So I believe.

The CHAIRMAN. During the months you were there what did you discover?

Mr. SULLIVAN. Well, I discovered that much, and I discovered that Mr. Whamond was drawing a salary from the steamship company that he was formerly employed with—the New York & Porto Rico Steamship Co., I believe it is; that he was also on the pay roll of the Government at the same time; and that at Christmas time he received a sum of money equal to his salary, as a sort of bonus.

The CHAIRMAN. Do you mean that he received that from the New York & Porto Rico Steamship Co.?

Mr. SULLIVAN. Yes, sir. In checking out the bids, I interviewed Mr. Kahn, who was in the matting business, and he told me that it was impossible for him to get any business, although he could compete with any of them with an even break.

The CHAIRMAN. That he could compete with any of whom?

Mr. SULLIVAN. Any people who were submitting bids and who were doing business with the Shipping Board. So I asked him about that, and asked Whamond and some of his representatives, and they told me that they received bids once a week and took those figures, and as they desired the different commodities needed for the Shipping Board they ordered them as they saw fit.

The CHAIRMAN. Mr. Sullivan, where were you transferred to?

Mr. SULLIVAN. To Nogales, Ariz.

The CHAIRMAN. There are not ships operating there, and were not at that time?

Mr. SULLIVAN. Not to my knowledge. I never saw any there anyhow.

The CHAIRMAN. What else did you ascertain?

Mr. SULLIVAN. I checked out rubber matting, rubber hose, and gaskets. I interviewed Mr. Sam Hildreth, who had been trying for some time to get some business. He said to me that he did not have a chance. He said, "The material I have got they have got to buy, but they are buying it from somebody else." I said, "Very well, we will check that out." I went then to a concern that my brother was connected with—he was the cashier of the concern—and I said to him, "Have you ever submitted any bids to the Shipping Board for rubber matting and hose?" He said, "Yes; but it is useless."

The CHAIRMAN. What concern was that?

Mr. SULLIVAN. The Gutta Percha Rubber Co. He said, "It is useless. We can not get any of it." He said, "Why, here not long ago"—if my memory serves me rightly, he said—"for rubber hose and rubber matting we submitted a bid to the Shipping Board at a very low price, practically at cost. It was purchased from us, however, for the Shipping Board, by two East Side men who are middlemen, and who received the order from the Shipping Board, and they paid more money for it than the bid showed we submitted as our price to the Shipping Board."

The CHAIRMAN. Do you know who the men were?

Mr. SULLIVAN. No, sir.

The CHAIRMAN. Did you ask him?

Mr. SULLIVAN. I asked him at the time, but I can not recall their names now. Later on, after I had had my little squabble with Whamond, I received word from the Treasury Department to be at my office on the 2d of January—oh, pardon me—in the meantime there was a general order came out for all other agents to cease investigating conditions at the Shipping Board. And all those that were as-

signed to special details were also told to return to their official positions, except Jewel, McConnichie's agent in charge, was held at the office. But he did not have sufficient time to make a complete investigation. These facts will be spelled out by his report. I will show you a letter, if you wish to see it, telling of my transfer [handing to the chairman a letter].

The CHAIRMAN. That letter simply gives the reason for sending you to Nogales?

Mr. SULLIVAN. Yes, sir. And there was absolutely no necessity for sending me down there, because I could not do much there, and could have done much better in New York, and it is spelled out there in that letter.

The CHAIRMAN. You did not find out much in New York?

Mr. SULLIVAN. No, sir; I was stopped and Jewel continued.

The CHAIRMAN. How long did Jewel continue?

Mr. SULLIVAN. That I do not know.

The CHAIRMAN. Is Mr. Jewel here?

Mr. SULLIVAN. Yes, sir; I just saw him here in the room.

The CHAIRMAN. Any questions, Mr. Kelley?

Mr. KELLEY. You were an agent of the Treasury Department?

Mr. SULLIVAN. Yes, sir.

Mr. KELLEY. How does it happen that the Treasury Department was investigating work of this kind?

Mr. SULLIVAN. They conduct all investigations at the request of the different departments in matters connected with the Treasury Department, and I believe this was on request made by Capt. Yates. There is a letter on file to that effect.

Mr. KELLEY. Who is Capt. Yates?

Mr. SULLIVAN. He was connected with the Shipping Board.

Mr. KELLEY. When the Shipping Board requested the Treasury Department to assign somebody to this work?

Mr. SULLIVAN. Right.

Mr. KELLEY. Was Capt. Yates located in Washington or in Philadelphia?

Mr. SULLIVAN. In New York.

Mr. KELLEY. Was he a superior officer to Mr. Whamond?

Mr. SULLIVAN. Well, I do not know whether he was a superior officer, but he was in charge of a department here—he was in charge of the accounting department, I believe.

Mr. KELLEY. What was Whamond's position?

Mr. SULLIVAN. He was purchasing agent.

Mr. KELLEY. The Department of Justice has a corps of investigators, too, hasn't it?

Mr. SULLIVAN. Well, they very seldom investigate conditions as to records of the Treasury Department. All investigations in regard to that matter are conducted by Treasury Department agents. Special agents of the Treasury Department do not conduct investigations as to the criminal end of the Department of Justice work.

Mr. KELLEY. This investigation of yours arose out of a dispute of some kind between the Treasury Department and the Shipping Board as to matters in the accounting division, didn't it?

Mr. SULLIVAN. I presume so, but I do not know.

Mr. KELLEY. That is probably how the Treasury Department would be brought into it?

Mr. SULLIVAN. Certainly.

The CHAIRMAN. You understood when you were assigned to it that Capt. Yates had requested the Treasury Department to investigate conditions up here?

Mr. SULLIVAN. It was requested by Capt. Yates, of McConnochie, by a letter, as I understood. There is a letter on file.

The CHAIRMAN. Capt. Yates requested the Treasury Department to investigate conditions up here?

Mr. SULLIVAN. Yes, sir.

The CHAIRMAN. When you started to investigate you began investigating the Shipping Board affairs as well as dealers around, did you?

Mr. SULLIVAN. Yes, sir.

The CHAIRMAN. And the purchasing agent of the Shipping Board, Mr. Whamond, objected to that, and you and he had a controversy, and he threatened to have you pulled off the investigation, did he?

Mr. SULLIVAN. No, sir.

The CHAIRMAN. And you said you were going through with it just the same?

Mr. SULLIVAN. Yes, sir.

The CHAIRMAN. But later you were transferred to Nogales, Ariz.?

Mr. SULLIVAN. Right.

The CHAIRMAN. And you did not proceed with the investigation long enough to ascertain very much about conditions except in two or three instances you ascertained that people had submitted bids which they felt were at low prices, and yet they were not awarded contracts for supplies; is that it?

Mr. SULLIVAN. Yes, sir.

The CHAIRMAN. Do you know anything else about it?

Mr. SULLIVAN. No, sir. I left and Mr. Jewel took up the investigation.

Mr. KELLEY. Did your investigation go far enough to bear out the statement which you made at the beginning of your testimony, that the purchasing agent, although he asked for bids, actually paid no attention to them in the awarding of contracts?

Mr. SULLIVAN. Why, yes. In addition to that, while I interrogated employees of the Shipping Board—and this is one thing he took exception to—I found they had organized some sort of little club, where they had solicited advertisements from different people who had been doing business with the Shipping Board, and were going to sell tickets. According to the statements made by the employees to me while under interrogation, they were going to split up \$1,000 apiece from the receipts of this affair that they were going to run.

Mr. KELLEY. Yes; but the point I wanted to be sure about was whether or not your investigation went far enough to see that it was the general practice at the time in this department, that although bids were obtained they were not followed in the awarding of business?

Mr. SULLIVAN. Right.

Mr. KELLEY. And you checked out the bids?

Mr. SULLIVAN. I did.

Mr. KELLEY. Did you investigate the responsibility of bidders enough to know whether or not they might have been rejected because of lack of responsibility?

Mr. SULLIVAN. Yes. Being in charge of it I took care of the inside end of the work and Mr. Jewel took care of the outside end of the work. In a number of instances the bids that were received and purchases made were at a higher rate, much higher rate than other bids that had been submitted by other concerns.

Mr. KELLEY. Other concerns of equal responsibility.

Mr. SULLIVAN. Yes.

Mr. KELLEY. That is all I wish to ask.

The CHAIRMAN. Thank you, Mr. Sullivan.

We will now call Mr. Jewel.

TESTIMONY OF MR. MARTIN J. JEWEL.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Your name, Mr. Jewel.

Mr. JEWEL. Martin J. Jewel.

The CHAIRMAN. Where do you reside?

Mr. JEWEL. 240 Manhattan Avenue, New York City.

The CHAIRMAN. What is your business or occupation?

Mr. JEWEL. One of the special agents, Treasury Department.

The CHAIRMAN. How long have you been in the Treasury Department?

Mr. JEWEL. Thirteen years next March.

The CHAIRMAN. You have been subpoenaed to appear before the committee with your records?

Mr. JEWEL. Yes, sir.

The CHAIRMAN. Were you at one time assigned to the work of investigating conditions here in New York pertaining to transactions of the Shipping Board?

Mr. JEWEL. Yes, sir.

The CHAIRMAN. When was that, Mr. Jewel?

Mr. JEWEL. The first matter that came to my attention was a communication of Capt. Yates referred to Mr. McConnochie, then my chief [producing paper].

The CHAIRMAN. This letter is dated November 6th, 1917.

UNITED STATES SHIPPING BOARD,
New York Office, N. Y.

Mr. J. F. McCONNOCHIE,
Special Agent in Charge,
Customs House, New York City.

MY DEAR MR. McCONNOCHIE: A man whose name was given as A. Norvick. No. 56 East One hundred and fifth Street, New York City, has been talking to our marine superintendent, Capt. E. P. McCaLder, about methods used in connection with repair work of our ships at Shewan's shipyards. Capt. McCaLder stated that it was not quite clear to him what Mr. Norvick was talking about, but felt it was desirable to have him investigated, as he rather gathered from the conversation that Mr. Norvick was likely to cause trouble.

We are very hazy as to just what Mr. Norvick is driving at and with our usual selfishness we are going to ask you to find out for us.

Very respectfully,

UNITED STATES SHIPPING BOARD,
CHARLES YATES,
Agent, N. Y. Office.

Stamped "Special agent, New York, received Nov. 7th, 1917, No. 33,288, file No. 9,277."

With notations in pencil at the top, "V. D-Jewel"; with the name in pencil, "Abe Nortick"; with a notation in the lower left hand corner, the name "Lieut. N. H. Henshaw, S. S. Wadena;" in the lower right hand corner, in indelible pencil "Report November 14th."

Who actually assigned you to the work?

Mr. JEWEL. Mr. McConnochie.

The CHAIRMAN. And who was assigned with you?

Mr. JEWEL. On this matter Mr. Van Doren.

The CHAIRMAN. Were you just assigned to this one particular matter?

Mr. JEWEL. On this particular case, at this time.

The CHAIRMAN. Did you investigate it?

Mr. JEWEL. I did sir.

The CHAIRMAN. And what did you find?

Mr. JEWEL. I called on Mr. Nortick and he told me a story that was rather interesting, to the extent that I asked him to come down to the office, so that we might take his testimony and put it on record, which is here. If you wish me to just give you the gist of it I can do so.

The CHAIRMAN. Just give the substance of it, if you can, briefly.

Mr. JEWEL. I will do that. Mr. Nortick complained that while he was employed at the Shewan's yard, he was being timed in on Government work, and then promptly pulled off that work and put on private work and timed in again, for which the Government had been charged as well as the private parties.

The CHAIRMAN. You say "timed in," Mr. Jewel; what do you mean by that?

Mr. JEWEL. That he had reported for work.

The CHAIRMAN. On Government work?

Mr. JEWEL. On Government work. He was timed in; that means that he was put on record by a number that he had reported for work, and for such hours as he works he receives pay.

The CHAIRMAN. And after he had been timed in and reported for work he was taken off that and put on private work?

Mr. JEWEL. After a very short interval he would be taken off the Government boats and put on private work, where he would be timed in again. Such time the private parties paid for, but the time that had been taken on Government contracts had never been changed; that remained, including overtime, etc. He goes into that, naming the different boats on which he had worked, and steamers, etc.; also the time and overtime that had been charged to the Government that he had never worked upon at all.

He also stated that in asking for supplies, packing, etc., and repairs, he might ask for one or two square feet of packing and he would receive six. That would be charged against the Government boat. Then when packings or parts or materials were required for the private contracts, the surplus, extra pieces, the excess would be taken off the Government boats and used on the private contracts and recharged. That was the basis of his testimony.

And he also complained of a condition where they were then constructing these torpedo-boat cases, which matter, however, was turned over to the Naval Intelligence; purely construction work that he thought was inferior, and we really had no jurisdiction on the investigation.

The CHAIRMAN. Did you investigate the complaints merely to ascertain whether what he complained of was true?

Mr. JEWEL. No; we did not go that far; Mr. Yates merely wanted to know what the gentleman had in mind. The testimony was pre-

sented to Mr. Yates with a report, which is also here, for such action as he might deem proper. I do not think any action has been taken.

The CHAIRMAN. Then, all you did in that matter was to get Nortick's story—find out what it was he was talking about?

Mr. JEWEL. Find out what it was. We were placed in a peculiar position in this matter. Mr. Yates appealed to Mr. McConnochie to assist him in selecting such employees and such help that might stand muster during this war period, which he did, with the sanction and from the orders of the Treasury Department. The work really never belonged to us at all, yet Capt. Yates would come to us freely, sometimes off the records without a letter, and simply ask us to find out so-and-so. The report might have been made verbally and never become a matter of record at all.

The CHAIRMAN. Did you know, at the time you were working, that the Shipping Board itself had a bureau of plant protection, or a bureau of investigation?

Mr. JEWEL. At that time they did not.

The CHAIRMAN. Did not have either?

Mr. JEWEL. No, sir.

The CHAIRMAN. What time was this?

Mr. JEWEL. They had a plant protection in so far—

The CHAIRMAN. No; what time was it that this work was done?

Mr. JEWEL. Why, this was right after the first of the war.

The CHAIRMAN. In 1917?

Mr. JEWEL. In 1917. As soon as these foreign ships were seized, our men were then on the vessels, and they were taken over by the collector of customs, and then they were turned over to the Shipping Board. Well, the guards, etc., were checked up by our office; they were not hired by us, but through us.

The CHAIRMAN. So far as you know, the first matter which you looked into was never further investigated to ascertain if the conditions alleged to exist by Mr. Nortick were true or not?

Mr. JEWEL. No, sir.

The CHAIRMAN. Did you conduct any other investigation, Mr. Jewel?

Mr. JEWEL. I did, sir. At one time Mr. Yates came into the office and stated that he had a man there that had made some purchases of condensed milk, and he feared that the transaction was not right, since the purchase had been made through a house where he had formerly been employed. He requested, however, in our investigation, that we keep away from the man entirely, that he was a man of high-strung temperament, and particularly nervous, and he feared that he might resign if he thought he was being investigated. He requested me to come over one evening after hours and go through the papers and files of the office and see what papers I might get that would lead to something.

At that time it involved a purchase of condensed milk. I went through it and casually I saw that the Shipping Board had paid a great deal more than the market at that time warranted, and I reported accordingly to Capt. Yates verbally, but no action was taken. Subsequently I understand that the Government did accept his resignation.

The CHAIRMAN. But you do not know what the amount of the overcharge was?

Mr. JEWEL. I can show you that; yes, sir.

The CHAIRMAN. Can you just state what the amount of the overcharge was, as you ascertained it?

Mr. JEWEL. On June 13, 1917, there was ordered from John S. Sills & Sons, on purchase order No. 1530-A, condensed milk, and evaporated milk, which were billed under date of June 14, 1917. Do you want the items?

The CHAIRMAN. Well, if you have the items there?

Mr. JEWEL. I have them right here; yes, sir.

The CHAIRMAN. Are there very many items?

Mr. JEWEL. No; there is just three items.

The CHAIRMAN. All right; perhaps we might as well have the items.

Mr. JEWEL (reading):

1,000 cases 48-1 tall Van Camp's evaporated milk at \$6.40-----	\$6,400
100 cases 48-1 tall Libby's at \$5.50-----	550
500 cases 48, 14-ounce condensed milk, \$7.75-----	3,875
Total -----	10,825

If that order had been purchased direct, they would have paid for the first 1,000 cases, instead of \$6.40, \$5.50 apiece, which would extend to \$5,500.

The CHAIRMAN. Instead of \$6,400?

Mr. JEWELL. Yes, sir.

The CHAIRMAN. What do you mean, if they had been purchased direct; from the manufacturer?

Mr. JEWEL. Why, Van Camp would have supplied them for \$5.50.

The CHAIRMAN. What did you find as to the other items?

Mr. JEWEL. The 100 cases of Libby's at the same price; there was no loss there, but the condensed milk, Sweet Clover, 500 cases, should have been purchased at \$6.90 instead of \$7.75. Sills's price was a net price, whereas the other people would have given 2 per cent off; which meant a loss in that particular purchase of \$1,515.

The CHAIRMAN. Did this purchase include delivery charge at any particular point, and transportation, and things of that sort?

Mr. JEWEL. All this merchandise was delivered to the Shipping Board warehouse, located on Pier 4, Hoboken, the Army docks.

The CHAIRMAN. That is the other side of the harbor?

Mr. JEWEL. Yes, sir.

The CHAIRMAN. And there was no transportation of any account included in this sale? That was unusual?

Mr. JEWEL. No.

The CHAIRMAN. Which might have accounted for the difference in price?

Mr. JEWEL. Only this, that the gentleman who succeeded in putting the order with Sills & Co. was working on a commission, and he was at that time in the employ of the Shipping Board.

The CHAIRMAN. Who was that?

Mr. JEWEL. W. J. Hanna.

The CHAIRMAN. Did he receive a commission for that?

Mr. JEWEL. The books of Sills & Co. show that he received one payment of \$242.72, which represented his commission.

The CHAIRMAN. That he received that on this particular sale, apparently?

Mr. JEWEL. That we can not prove, for this reason, and Sills & Co. would not tell us any more about it; in fact, they did not expect that we would find out; but Mr.—

The CHAIRMAN. Was the date of this commission which you found on their books during his employment by the Shipping Board?

Mr. JEWEL. Yes, sir; he was at that time employed by the Shipping Board. Mr. Kelaher, who was at that time Mr. Hanna's immediate superior, assistant to Mr. Whamond, in his testimony states that Mr. Hanna informed him that he is still receiving commissions from John S. Sills on all business received from the Shipping Board.

The CHAIRMAN. Is there anything else that you looked into, Mr. Jewel?

Mr. JEWEL. The Shipping Board had a form on which they had submitted weekly prices for meats. This represented, or was put in, rather, in the form of a bid. As a matter of fact, the Shipping Board in no purchases confined themselves to competitive bids; these papers were merely submitted, open; they were not sealed. There were evidently no comparisons made. The orders were merely placed where they felt they might do someone the most good. On some invoices of meats here that I picked up at random—there were so many of them it was almost impossible to go through them all—but just picking some up at random I find that on one lot of meat there was \$52 overpaid, another lot, \$95 overpaid; another lot, \$72 overpaid; another lot, \$48 overpaid, and so on. They would totally disregard the lowest bid that was submitted; that is how I arrived at my figures, by making a comparison, a recapitulation, so to speak, of the highest and lowest, or rather, not the highest, but of the bid where the order had been placed, against the lowest bid received during that period, and these differences indicate that it might have been purchased for less money had they confined themselves to awarding contracts on a competitive bid basis.

The CHAIRMAN. Did you make any investigation of the low bidder?

Mr. JEWEL. Oh, yes.

The CHAIRMAN. To ascertain whether they were responsible parties and could furnish meat of good quality?

Mr. JEWEL. They were all responsible parties, sir.

The CHAIRMAN. Did you find out whether any commissions were paid in those instances?

Mr. JEWEL. We have not been able to do that; no, sir. When Mr. Kelaher and Mr. Whamond were questioned on that, also the commissary man, their argument at all times would be that they merely purchased as they did because they felt they were making a better purchase, even though it may have cost a little more money.

The CHAIRMAN. And that might have been so?

Mr. JEWEL. Well, they are not consistent, because at one time Swift & Co. may have gotten it, another time Armour may have gotten it. Now, both are equally good; they are of the same standard, and when they disregard a price and simply place an order there must be some reason for it other than quality alone.

The CHAIRMAN. Well, it might have been that one would have the quality for immediate delivery, and the other one perhaps could not deliver it until the next day.

Mr. JEWEL. They all did that, sir; they all had immediate deliveries. That was the stipulation and the understanding.

The CHAIRMAN. Were the bidders the packers, Swift and Armour, or their agents here?

Mr. JEWEL. Yes, sir. They understood that in meeting the steamship demands they might be called upon to supply at very short notice.

The CHAIRMAN. You say these overcharges were \$52 and \$78 and \$48, or along there. Upon how large an order would those overcharges appear—totaling how much?

Mr. JEWEL. Why, the usual supply of a ship for a trip. For instance, there was, say, \$2,417.68 for an item. One item there was no bid on by the lowest bidder. Eliminating that item, the amount would be \$1,999.92, against a lowest bid of \$1,947.61.

The CHAIRMAN. Well, is that for a single ship?

Mr. JEWEL. Yes, sir; that is the supply for one ship for one trip.

The CHAIRMAN. How many ships were operating there at that time?

Mr. JEWEL. I can not tell you offhand, sir.

The CHAIRMAN. Did you investigate more than one ship?

Mr. JEWEL. We did not cover the ships at all.

The CHAIRMAN. Just the bids?

Mr. JEWEL. We confined ourselves to the investigation of the records and files of the purchasing agent.

The CHAIRMAN. Did you investigate anything with reference to short deliveries of quantities?

Mr. JEWEL. We had the checkers there, and the checkers had no records of what they checked at all.

The CHAIRMAN. The Shipping Board's checkers?

Mr. JEWEL. Yes, sir. They should be certified and stated that they were there when the merchandise was received; they checked it up, and there was no discrepancy, and there was nothing said. But the checkers at no time had any records of weights or quantities or anything that was actually passed by them aboard ship.

The CHAIRMAN. When was this?

Mr. JEWEL. During this same period.

The CHAIRMAN. Well, about when; 1917?

Mr. JEWEL. 1917 and 1918; the early part of 1918.

The CHAIRMAN. Did you find anything with reference to poor quality?

Mr. JEWEL. Well, we did not go into that. They had a meat inspector there whose duty it was to inspect meats—in fact, ride with it.

The CHAIRMAN. Did you find his reports?

Mr. JEWEL. But all he had was purely a mental report of what he did.

The CHAIRMAN. What other matter did you look into?

Mr. JEWEL. We covered the matter of packings.

The CHAIRMAN. Engine-room supplies?

Mr. JEWEL. Engine-room supplies, which seemed to be purchased promiscuously, at random, probably through concerns that had nothing but an office or a desk—not even an office.

The CHAIRMAN. What is that?

Mr. JEWEL. Just a plain desk; desk room.

The CHAIRMAN. From concerns that had no office?

Mr. JEWEL. No factory, no plant, no stock, or nothing; purely an office.

The CHAIRMAN. Well, selling agents, you mean?

Mr. JEWEL. Well, these men would secure orders as they would go along, and would place these orders, or have the conditions met to supply the board. Now, that same merchandise could have been purchased for less by buying direct, but many of the manufacturers were never entertained on these bids.

The CHAIRMAN. Never entertained?

Mr. JEWEL. No, sir. They entertained them this way, on their bids——

The CHAIRMAN. What do you mean by "entertained"; considered?

Mr. JEWEL. Considered; yes, sir.

The CHAIRMAN. You say they did not have an opportunity to bid?

Mr. JEWEL. They did bid; yes; and they bid at probably lower prices than the board was paying, but their proposition was totally disregarded and the orders were placed with men who had the connection or association with members of the board.

The CHAIRMAN. These men who just had an office?

Mr. JEWEL. Yes, sir.

The CHAIRMAN. When you say they had connections with the board, what connections do you refer to?

Mr. JEWEL. Why, they might be purely sociable, but through long acquaintance from their association prior to probably the gentlemen's connection with the board.

The CHAIRMAN. Did these gentlemen have an office before these transactions, or was the office established just for the purpose of securing this business?

Mr. JEWEL. Well, now, that is hard for me to say just offhand. This one man particularly had been in the business, but operating just along these lines. He would purchase what he required.

Along this line, it appears that the man who can do the most business with the steamship people on supplies is the man that will entertain the steward or whoever is in charge of the department it may fall in, the machinist or whatever it may be, by being a good fellow, by giving him outright money, or by entertaining him socially.

The CHAIRMAN. Did you find any instances of that?

Mr. JEWEL. Well, that is the usual condition; there are no bones made about it.

The CHAIRMAN. Did you find any instance——

Mr. JEWEL. Yes, sir.

The CHAIRMAN. Of commissions or gifts of money?

Mr. JEWEL. Well, only in so far that it has been intimated it has been accepted generally as a condition, from the concessions of one of the men who actually refused to give up any more to get business. That is why he could not get some of the business of the board.

The CHAIRMAN. Because he would not pay any commissions or make any presents?

Mr. JEWEL. He would not pay commissions or make any presents. He stated, "I have been paying all my life. I am honest now." The testimony on that may interest you gentlemen.

The CHAIRMAN. Who was this party?

Mr. JEWEL. I will try to dig that out. That is Mr. Harry N. Bennett. He charges discrimination on the part of the Shipping Board in connection with placing of orders for boiler compounds.

The CHAIRMAN. Was he representing some firm manufacturing or dealing in boiler compounds, or was he just one of these men who had an office to secure this business?

Mr. JEWEL. No; he had a plant and bona fide business. I will just refresh myself on this, if you do not mind; the whole gist of it is just in a few words [examining record]. He claimed that he could supply the Shipping Board with a boiler compound identical with what they were using for 5 cents a pound less. His proposition could not, however, be considered on account of the chief engineer, Mr. Scott.

The CHAIRMAN. Of what ship?

Mr. JEWEL. This is the engineer to the board. He would not O. K. the orders for this compound, even where it was particularly specified by the engineer of a vessel.

The CHAIRMAN. Mr. Jewel, we have had testimony that during the operation of ships by the Shipping Board from this port, it has been the practice of dealers in supplies and materials, and persons doing repairs, to make presents of money or pay commissions to officers of various ships, and that that practice was not confined to Shipping Board ships but prevailed in shipping circles generally, and had extended over a long period of years; that it had come to be a well-established practice. As a result of the inquiries and investigations you made, can you say whether or not you found that to be so?

Mr. JEWEL. Well, morally I am satisfied that that condition is so, but there is no way of proving it.

The CHAIRMAN. You found instances with respect to Shipping Board ships where that occurred?

Mr. JEWEL. Oh, yes; but I——

The CHAIRMAN. And received admissions from people?

Mr. JEWEL. We can not definitely establish that fact, because a man who is accepting money will not admit it, when it is to be made a matter of record, and the man who is giving it certainly will not either.

The CHAIRMAN. But you found one instance where it appeared upon the books of the concern furnishing the supplies that a certain amount of money had been charged as a commission to a Shipping Board officer?

Mr. JEWEL. No. Mr. Bennett in his testimony states that he had been paying all his life to get business. A little difficulty that he got into; his firm used to give him an amount of money, a fund for that purpose. Mr. Bennett, instead of using the fund for that purpose, placed it on some slow horses. The result was that he could not pay these men for their business; the house did not get the business, so Mr. Bennett lost his job. Then Mr. Bennett decided that it was best for him to be honest and not try to buy business, but sell his merchandise at the best market price, as other legitimate bona fide business houses did.

The CHAIRMAN. How about the Sills case; you found an entry on the books there, did you not?

Mr. JEWEL. Yes, sir.

The CHAIRMAN. Where the commission had been entered on their books?

Mr. JEWEL. That absolutely speaks for itself.

Mr. KELLEY. Mr. Chairman, as I recollect in that case, the money was not paid to the purchasing agent of the Shipping Board but to somebody else.

Mr. JEWEL. Well, at that particular time the money was paid to the man who happened to place that order. Now, by what authority he placed that order we have never been able to establish. He was not the purchasing agent, yet he succeeded——

The CHAIRMAN. But he was the man who placed the order for these goods?

Mr. JEWEL. Yes, sir.

The CHAIRMAN. He was in the purchasing agent's department, was he not?

Mr. JEWEL. No; he was not even in that department. How he succeeded in putting an order through, having it executed, paid for, and everything, nobody could explain at all.

The CHAIRMAN. Have you found any other instances like that?

Mr. JEWEL. No; that is the only glaring one we found there. On this investigation we merely scratched the surface, because we were disturbed and interrupted. Mr. Sullivan was taken away, and I had orders to be sent back to my quarters, and that was finally stretched and detained until we finally got orders to discontinue all investigation for the Shipping Board; that the board would conduct their own bureau for this purpose.

The CHAIRMAN. Did you have any difficulty or controversy with Mr. Whamond during the investigation you made?

Mr. JEWEL. There is only one way I can describe it: Mr. Whamond went off the handle, absolutely lost his head, and at times was inclined to be quick, and with Mr. Sullivan very abusive.

The CHAIRMAN. Were you there when he had this controversy with Sullivan?

Mr. JEWEL. Yes, sir.

The CHAIRMAN. And heard the language used?

Mr. JEWEL. Heard the language; saw the whole thing.

The CHAIRMAN. And was there any effort made, that you could see, on the part of any of the Shipping Board officials or employees to hinder the inquiry that you were making?

Mr. JEWEL. No; they did not hinder us, but they did not particularly offer to help us. At times they were reluctant to freely——

The CHAIRMAN. Would not cooperate?

Mr. JEWEL. Exactly. They would not give us the papers that we wanted, excepting we went through their files and dug them up ourselves. As a matter of fact I might say this, in justice to the innocent people on the board, that their system was so poor that I doubt very much whether they themselves could find some of the papers if they wanted them without going through a whole lot of files.

The CHAIRMAN. Is there any other matter that you investigated, Mr. Jewel?

Mr. JEWEL. We investigated the warehouse or storeroom. We found conditions there most deplorable. At no time had inventory been taken, and there was absolutely no way of checking up as to whether merchandise had been properly dispensed or requisitioned,

or whether merchandise had been stolen or given away. There was no means at all of checking up.

The CHAIRMAN. Could you give us any idea as to the quantity or value of the material in that warehouse?

Mr. JEWEL. Well, I can not.

The CHAIRMAN. Was it a large warehouse, or just a shed?

Mr. JEWEL. Oh, no; very large. They carried an enormous quantity of merchandise of all kinds, so much that they supplied some of the Army vessels, transports, etc., with all that they required, which was in turn credited to the board.

In doing all this, however, there were no real records kept that could be checked up by an outsider at any time. The man who had charge of the warehouse would make his record for warehouse purposes, and then send a duplicate to the New York office. The New York office would be guided by what these guards stated. The New York office had no absolute way of checking up at all.

The CHAIRMAN. So the purchasing department at New York, receiving bills for goods or materials purchased, had no way of ascertaining whether those goods were actually received and delivered at the warehouse?

Mr. JEWEL. Not at all.

The CHAIRMAN. And did the man at the warehouse have any way of ascertaining whether the goods received were the correct quantity that had been ordered by the purchasing department?

Mr. JEWEL. No; the man at the warehouse would be guided by an invoice entirely; from his invoices he made his records.

The CHAIRMAN. That is, the invoice sent by the seller?

Mr. JEWEL. Sent by the shipper to the board.

The CHAIRMAN. The person who was supplying the material?

Mr. JEWEL. Yes, sir. The checker's records he never saw at all. As a matter of fact, the checker never had any records to show. Whether the merchandise had been fully received or not I do not think was ever discovered.

The CHAIRMAN. And whether it was the quality or the particular brand ordered.

Mr. JEWEL. Very often it occurred that they would bill one brand and ship another.

The CHAIRMAN. You found instances of that?

Mr. JEWEL. Yes, sir; and no question was raised. I suggested inaugurating or starting the warehouse with a system which would enable them to check up accurately.

The CHAIRMAN. Was it done while you were there?

Mr. JEWEL. That was very strongly opposed by Mr. Whamond; he did not propose to have anybody tell him how to run his business.

The CHAIRMAN. Do you know whether or not at this warehouse there was always a sufficient supply to stock ships in an emergency?

Mr. JEWEL. On some items they always had plenty. On others they were compelled to buy as they needed.

The CHAIRMAN. Did you in your investigation find instances where orders were delayed or held up, and then placed at higher prices, on the ground that they were emergency orders and there had to be quick delivery?

Mr. JEWEL. No; I do not recall that.

The CHAIRMAN. Is there any other matter that you investigated while you were on this work?

Mr. JEWEL. Excepting the personnel.

The CHAIRMAN. What did you find as to the personnel.

Mr. JEWEL. Why, almost entirely the personnel of the purchasing agent's office were only such that were closely related to him through friendship or through some friend's friend, and outsiders were never appointed. In other words, he made that a very close corporation.

The CHAIRMAN. Who did?

Mr. JEWEL. Mr. Whamond.

The CHAIRMAN. Did he make the appointments?

Mr. JEWEL. Yes, sir.

The CHAIRMAN. How many did he have on his force, about how many?

Mr. JEWELL. Oh, about 20; 20, possibly 25.

The CHAIRMAN. And were these the men that formed this club; did you testify about that?

Mr. JEWEL. No; Mr. Sullivan did, I guess.

The CHAIRMAN. Do you know about that?

Mr. JEWEL. Yes.

The CHAIRMAN. Some little club they formed; were these the men that formed it?

Mr. JEWEL. They helped in that office. They formed this social club, and they were to run off a dance, and they brought out the usual catalogue and solicited ads. from the people that supplied the board. The testimony shows that they received all the way from \$5 to \$50 from the various people for the inserts or ads.

The CHAIRMAN. That is, these employees in the purchasing agent's office formed a club and held a dance and solicited advertisements to be put in the dance program from the persons who were furnishing supplies or bidding upon goods, submitting their bids to these offices?

Mr. JEWEL. That is correct.

The CHAIRMAN. And that they received from these dealers, for these advertisements, sums varying from \$5 to \$50?

Mr. JEWEL. That is right.

The CHAIRMAN. Did you go any further with that inquiry and find out how much was actually received?

Mr. JEWEL. Yes; they showed us at the time how much money had been actually received, and I believe when this investigation brought the facts forth they were instructed to return these moneys.

The CHAIRMAN. Was it returned, do you know?

Mr. JEWEL. That we do not know. We never went that far.

The CHAIRMAN. How much, if you remember, was received?

Mr. JEWEL. They had not collected a great deal when we started; in fact, the amount they had collected was very small.

The CHAIRMAN. Had the dance been held?

Mr. JEWEL. No, sir.

The CHAIRMAN. So you think that is one matter that the investigation held up?

Mr. JEWEL. Oh, yes; we killed that. It stopped the dance, and practically nullified everything.

The CHAIRMAN. To whom did you make your report?

Mr. JEWEL. To Capt. Yates.

The CHAIRMAN. And do you know what was done as a result of the report?

Mr. JEWEL. No, sir; excepting I do know this, that they issued a circular letter to the parties from whom they were purchasing, dwelling on this condition and directing them not to contribute or offer any funds for such purposes. I have a copy of that, if you would like to see it, but not with me.

The CHAIRMAN. Did you make any investigation as to the coffee purchases?

Mr. JEWEL. Yes, sir; in this way: That investigation had to be very limited, because nobody knew anything about it but Mr. Whamond, and he would not tell us anything. All this coffee was purchased from a plantation in Porto Rico. They paid 19 cents a pound—no, they paid—or he states, rather, that it cost him 19 cents a pound at that time, here. At that time coffee could have been purchased for around that figure or less, on a competitive basis, but which Mr. Whamond said that the Porto Rican Line had been using that coffee entirely for years. He, knowing it to be good coffee, was satisfied that he could not do any better if he went out in the open market. He said he might get it for a little less, but he would not take a chance on the quality.

The CHAIRMAN. Well, there was nothing criticise about that, was there?

Mr. JEWEL. No.

The CHAIRMAN. If that was the fact?

Mr. JEWEL. Well, is Mr. Whamond in a position to judge coffee without trying it?

The CHAIRMAN. Well, did he not try it?

Mr. JEWEL. No, sir; never went that far; never considered or entertained anybody's bid at all on coffee.

The CHAIRMAN. Never sought bids?

Mr. JEWEL. Insisted upon getting his own coffee right down there. The Porto Rican boats run right down through that section.

The CHAIRMAN. That is the line with which he was connected?

Mr. JEWEL. That is the line with which he was connected.

The CHAIRMAN. Did you examine the books of the Porto Rican line at all?

Mr. JEWEL. Only pertaining to Mr. Whamond's salary. It appears that while he was on the pay roll of the Shipping Board he was still being paid by the Porto Rican steamship line.

The CHAIRMAN. Do you know whether he was rendering them any service for it?

Mr. JEWEL. He did. He used to report at their pier in Brooklyn about 9 every morning, 8.30 or 9, and he would spend an hour there to take care of things, and then go to the Shipping Board.

The CHAIRMAN. That was not anything unusual, was it, during the early days of the war, when they called men from various businesses, to put in part of their time with their own business and give the rest of their time to the Government.

Mr. JEWEL. If you want to look at it that way, no.

The CHAIRMAN. I say it was not unusual at that time?

Mr. JEWEL. No; but on the other hand, he being a Government employee, was he justified in also holding another position with another firm?

The CHAIRMAN. That is the question that you raise?

Mr. JEWEL. Yes, sir.

The CHAIRMAN. Now, what did he receive for those Saturday afternoon services?

Mr. JEWEL. No; this was not only Saturday afternoon; this was every day.

The CHAIRMAN. Every day?

Mr. JEWEL. Every morning and every evening. He received his usual salary of, I think, \$55 a week. At the end of the year he also received a bonus equal to a year's salary, and he received during that period \$6,000 from the Shipping Board.

The CHAIRMAN. \$6,000 a year?

Mr. JEWEL. Yes, sir.

The CHAIRMAN. Of course, a great many men were taken from their own concerns or left good positions with other companies during the war to accept Government positions, and it was customary, was it not, for private concerns, in order to maintain their organizations, to keep these men upon their pay rolls, some at reduced salary and some at the regular salary, even though they were receiving a salary from the Government; and the only question you raise is whether that was a proper thing to prevent?

Mr. JEWEL. Yes, sir.

The CHAIRMAN. Do you know whether his services, which he rendered the Porto Rican, in any way conflicted or interfered with his duties as a Shipping Board official? Did they cross in any way? Did he have dealings with the Porto Rican company in his official capacity on the Shipping Board?

Mr. JEWEL. No; I can not say he did. Not to my knowledge.

The CHAIRMAN. Were there any other practices which you investigated? Did you look into the coal situation?

Mr. JEWEL. I did look into the coal situation. He bought all his coal from Berwind-White. It seems that Berwind, of Berwind-White, is also one of the large stockholders of the New York & Porto Rican Steamship Co., and also of this company. In fact, one is controlled by the other. But in the face of all that, while there were many unusual charges, yet as a total they did not appear to exceed what the usual market price was during these periods. There is really nothing there on the face of it that would indicate any overpayments.

The CHAIRMAN. Were there any short deliveries of coal or poor quality of coal?

Mr. JEWEL. That we could not touch on. How the coal was delivered or how received can only be established by a check.

The CHAIRMAN. And there was not a sufficient checking system there to ascertain that?

Mr. JEWEL. There was not any check system at all.

The CHAIRMAN. But according to the figures on the books the concern got coal at the prevailing prices, and apparently it was of good quality and apparently the quantity paid for was delivered?

Mr. JEWEL. If they had delivered the full quantity, the quality and the price appeared regular.

The CHAIRMAN. Well, there was nothing on the books to show that they did not deliver the quantity?

Mr. JEWEL. There was nothing on the books to show that they had been short shipped.

The CHAIRMAN. Was there anything else you looked into?

Mr. JEWEL. No; there is nothing I can recall just offhand.

The CHAIRMAN. Well, when you interviewed these people and took their statement, was it made under oath?

Mr. JEWEL. It was made under oath.

The CHAIRMAN. Have you any questions, Mr. Kelley?

Mr. KELLEY. I judge from what you have said that some staple articles which would be required by the Government in enormous quantities, like bacon, were supplied on a rather hand-to-mouth policy; that is, from day to day?

Mr. JEWEL. Yes, sir. At that time I suggested that a refrigerating plant be installed on these piers for just that purpose. That would enable them to purchase their meats in quantities and take proper care of them.

Mr. KELLEY. Could not the Government make arrangements with these large packers for refrigerating, so that they would not have to go out in the retail market and buy meat?

Mr. JEWEL. Oh, they practically confined themselves to the big packers at times. Very often they would place their orders with the ship-supply people.

Mr. KELLEY. It is not customary, is it, for the Government to buy articles on the daily market? Do they not, as a rule, have a contract running over months at a time?

Mr. JEWEL. Surely.

Mr. KELLEY. Has not the Shipping Board pursued that policy?

Mr. JEWEL. No.

Mr. KELLEY. Is the Shipping Board now buying meat on the market from anybody they can pick it up from?

Mr. JEWEL. That I do not know. I have not been near the Shipping Board since I stopped. I rather imagine, though, that they are doing just what they were doing here.

Mr. KELLEY. And buying coal wherever they can pick up a few tons of coal?

Mr. JEWEL. When they need to supply a vessel they will buy it for that vessel?

Mr. KELLEY. It hardly seems possible that you are right about that, Mr. Jewel. Are you sure you are right?

Mr. JEWEL. Well, with packing and merchandise of that character they only bought such quantities as were required for a vessel. At that time it was suggested that they follow the Navy Department's procedure about purchasing, but that did not seem to appeal to them.

Mr. KELLEY. The Navy Department makes contracts for a year for all these staples?

Mr. JEWEL. Certainly.

Mr. KELLEY. And has no trouble about getting its supplies promptly?

Mr. JEWEL. Not at all; and in many instances probably gets a fair superior article. In purchasing for the Navy Department they must meet specifications, whereas this is just an open method, buying anything that is handy.

Mr. KELLEY. With no proper inspection?

Mr. JEWEL. No inspection, nothing at all.

Mr. KELLEY. Nothing to show whether the quantity ordered, or the quality, is supplied?

Mr. JEWEL. I suppose it is, but they may have an alibi on that; you can not prove it.

Mr. KELLEY. From the records you can not tell whether the coal that was invoiced had actually been delivered?

Mr. JEWEL. The engineer would check it up and certify to the fact that the coal had been delivered, but there is no way of determining definitely whether the actual quantity had been delivered. What they do with coal is this: The bunker is marked, and a certain elevation or a certain level so wide and so square will mean so many tons. But very often the coal is dumped into bunkers where there is some coal still remaining.

Mr. KELLEY. And from your investigations you found that the warehouses had no books which would show when articles were withdrawn and what quantities were remaining in the store?

Mr. JEWEL. They have records, yes, sir; but they don't mean a thing.

Mr. KELLEY. That is what I mean; they have no proper records?

Mr. JEWEL. No proper records at all. They attempt to keep a record of what they receive and what they send out, but there is no way of checking up.

Mr. KELLEY. Sometimes invoice is partly delivered to the ship and partly to the warehouse. How did they make a record of the amounts delivered to the warehouse?

Mr. JEWEL. I don't know.

Mr. KELLEY. Take other staples, like beans and flour, which are supplied to ships in great quantities. Do they buy that kind of material out in the local market?

Mr. JEWEL. Flour they made a contract for at one time. They did have considerable on hand, but they would permit themselves to run out.

Mr. KELLEY. They would run out of a staple like flour?

Mr. JEWEL. Of a staple; yes, sir.

Mr. KELLEY. And beans?

Mr. JEWEL. Beans, and even cereals—ordinary stuff that is used continually all the time, every day.

Mr. KELLEY. Of course, if they had no proper invoice of what they had on hand, they naturally would run out?

Mr. JEWEL. Probably that is how it occurred. The New York office was never in a position to know what actually was on hand.

Mr. KELLEY. When were your last investigations made?

Mr. JEWEL. I reported on that May 9, 1918.

Mr. KELLEY. That is the last you investigated?

Mr. JEWEL. Yes, sir.

The CHAIRMAN. You do not know now what the practice is in the purchase of supplies?

Mr. JEWEL. No, sir.

The CHAIRMAN. Did you have occasion to make any inquiry or investigation as to the story of furnishings or equipment taken off the German liners?

Mr. JEWEL. No, sir.

The CHAIRMAN. Or silverware?

Mr. JEWEL. No, sir.

The CHAIRMAN. That is all, Mr. Jewel. Thank you.

TESTIMONY OF CAPT. OSCAR O. W. PARKER.

The witness was duly sworn by the chairman.

The CHAIRMAN. Will you state your name, please?

Mr. PARKER. I sign it Oscar O. W. Parker.

The CHAIRMAN. You are connected with the Shipping Board?

Mr. PARKER. Yes, sir.

The CHAIRMAN. In what capacity?

Mr. PARKER. I am now acting port superintendent for the port of New York.

The CHAIRMAN. How long have you held that position?

Mr. PARKER. Since the 1st of October.

The CHAIRMAN. And were you connected with them before that?

Mr. PARKER. I have been connected with them since 1917, in June.

The CHAIRMAN. In what capacity?

Mr. PARKER. Master of the transport *Iroquois*, now known as the *Freedom*. I was taken out of that ship in May, 1918, as chairman of the board of inspection of the port of New York; remained in that position until February, 1919, when I was appointed port captain, and have remained there until October 1 of this year.

The CHAIRMAN. In what division of the Shipping Board are you?

Mr. PARKER. Division of operations.

The CHAIRMAN. To whom do you report directly?

Mr. PARKER. Mr. George W. Sterling.

The CHAIRMAN. And who is he?

Mr. PARKER. He is assistant director of the port of New York of the Shipping Board.

The CHAIRMAN. Assistant director of operations, or assistant director of—

Mr. PARKER. Of the whole shipping match at New York.

The CHAIRMAN. And do you know to whom he reports in Washington?

Mr. PARKER. To the board, I think. I am not sure, but I think that he reports to Capt. Foley at the present time.

The CHAIRMAN. Have you seen a copy of the report of the investigation made by the investigators for this committee, Captain?

Mr. PARKER. Not the pamphlet. Any knowledge that I have of that is from the papers.

The CHAIRMAN. Various matters are covered here, about which we wish to inquire of you, and if you prefer, the committee would be very glad to furnish you with a copy of the report for you to study, you to make such annotations as you desire in the margin, so that we can call you at a later session and examine you as to them. Are you willing to do that?

Mr. PARKER. I am.

The CHAIRMAN. Would you prefer to do it that way?

Mr. PARKER. Well, it is immaterial to me, sir, whether questions are to be asked now or whether I am to answer from the book.

The CHAIRMAN. Well, would you think that if you took this report and went through the report and the statements that are made there, you could by making annotations and possibly referring to your records, secure information that you have not with you here to-day?

Mr. PARKER. Possibly.

The CHAIRMAN. And you might be able to testify more intelligently if that were done?

Mr. PARKER. Yes, sir.

The CHAIRMAN. Well, if I hand you this, would you be willing to make those annotations and return the report to the committee, so that when we resume our sessions after Congress convenes we can recall you?

Mr. PARKER. Yes, sir; I will be pleased to do it.

The CHAIRMAN. There are some suggestions as to where the annotations should be made, Captain. We will give you that in this franked envelope so that you can mail it to us. We will excuse you for the present.

Mr. KELLEY. I would like to ask the captain a few questions. Just what are your duties, Captain?

Mr. PARKER. Well, they are various. As superintendent, I have under my notice all of the doings of ships in all departments in the division of operations.

Mr. KELLEY. Well, can you give me a little more clearly your duties?

Mr. PARKER. We have, for instance, the reconditioning of the ship. We make a survey, or the assistants that I send to make a survey on the ship at the expiration of a voyage.

Mr. KELLEY. That is to say, you find out what it needs for the next voyage?

Mr. PARKER. Yes, sir.

Mr. KELLEY. And then do you go ahead with the work?

Mr. PARKER. We turn the repair and construction work over to that department after making a survey.

Mr. KELLEY. Do you have to do with purchasing?

Mr. PARKER. No, sir—well, we have to do with the requisitions. We approve or disapprove of the requisitions.

Mr. KELLEY. Do you examine the work when it is done on the ship?

Mr. PARKER. Not in the C. & R. Department, not as regards engine work.

Mr. KELLEY. But as to furnishings of any kind you do?

Mr. PARKER. Yes, sir.

Mr. KELLEY. How about the supplies—food, for instance?

Mr. PARKER. Well, if there are any complaints as to their condition, whether they are inferior or not, if that question is brought to our notice, we make a survey of that. Also the personnel of the ship.

Mr. KELLEY. What do you mean by that?

Mr. PARKER. Well, as to whether they are desirable or undesirable.

Mr. KELLEY. Do you employ the men?

Mr. PARKER. We do not employ them; we approve. We employ the men, first, on ships that are directly under the management of the Division of Operations, but ships that are allocated to different managers and owners, we only approve of the licensed officers and the heads of the departments, like the steward.

Mr. KELLEY. Who did you say was immediately above you here in New York?

Mr. PARKER. Mr. George W. Sterling.

Mr. KELLEY. He is the superintendent?

Mr. PARKER. No, sir; he is assistant director; that is his title. He is my superior, sir.

Mr. KELLEY. What is your title?

Mr. PARKER. I am acting now as port superintendent.

Mr. KELLEY. You are his assistant?

Mr. PARKER. Yes, sir.

Mr. KELLEY. If he were sick you would take his place, would you?

Mr. PARKER. I presume so; yes, sir.

Mr. KELLEY. But he does not get sick?

Mr. PARKER. He is blessed with good health.

Mr. KELLEY. But in case he went away you would have charge of everything connected with the operation of the ships?

Mr. PARKER. That case has never arisen, sir. I do not know what Washington would do.

Mr. KELLEY. But I say, if he were to be away tomorrow you would probably take care of everything here relative to the operation of the ships?

Mr. PARKER. Yes, sir.

Mr. KELLEY. And the buying of the supplies. You would be responsible? You stand between all these subordinates and the Washington office?

Mr. PARKER. Yes, sir.

Mr. KELLEY. So that you would have to know all about these different departments here?

Mr. PARKER. I presume so; yes, sir.

Mr. KELLEY. Well, don't you? Do you know about that?

Mr. PARKER. I have a fairly good knowledge of it, sir.

Mr. KELLEY. Suppose you are called upon to fulfill the duties of your superior officer, could you do it?

Mr. PARKER. I would make a strong try at it, sir.

Mr. KELLEY. Well, what do you know about the purchasing of supplies?

Mr. PARKER. Some forty odd years of sea experience.

Mr. KELLEY. Do you know how they are purchased?

Mr. PARKER. Well, yes, sir. We send in a requisition to a supply house for goods.

Mr. KELLEY. Do you know how the head of that department here in the Port of New York creates a stock of supplies, whether he has a stock of supplies on hand or not?

Mr. PARKER. I think not; no, sir. There are no supplies held in store. The only supply that we have is something that has been taken off of other ships. We have a supply house, or a lot hand house, known as the Kent avenue storeroom; but that is just composed, or largely composed, of material that has been supplied to the different building organizations for the equipment of ships.

Mr. KELLEY. Does your supply department have anything to do with purchasing the supplies for private operators of Government ships?

Mr. PARKER. No, sir; only since I have been in office as port superintendent I have requested managers and operators when they were

in need of equipment to notify the division of operations, and if we had it in stock we would furnish it and charge it up to their account.

Mr. KELLEY. You have just requested them to do that?

Mr. PARKER. Well, they have done it in quite a few instances.

Mr. KELLEY. Don't they do it uniformly?

Mr. PARKER. They have done it whenever requested.

Mr. KELLEY. Why don't you issue an order requiring them to do it?

Mr. PARKER. Well, it is a new departure, sir, and we have not gotten around to that yet.

Mr. KELLEY. In other words, although the Government might have millions of dollars worth of a certain article on hand, there is nothing that would absolutely require the operator to take it of you, but he would go out in the market and pay two or three times as much as the article was worth in your stock? Is that right?

Mr. PARKER. I understand, sir, from the managing agreement, that when a ship is assigned to the manager and operator, he is the purchaser.

Mr. KELLEY. And all the Government does is to pay the bills?

Mr. PARKER. Presumably so, sir.

Mr. KELLEY. The Government has no jurisdiction whatever over the purchase?

Mr. PARKER. Well, I think in the past that is about the way.

Mr. KELLEY. Do you think that is good business?

Mr. PARKER. No, sir; I do not.

Mr. KELLEY. There is no inducement, is there, for the operator to scrutinize the prices?

Mr. PARKER. No, sir.

Mr. KELLEY. You do not know whether he is buying from some subsidiary company or not, do you, in which he is personally interested?

Mr. PARKER. Well, I could not say positively.

Mr. KELLEY. I say, you do not know?

Mr. PARKER. No, sir.

Mr. KELLEY. You do not inquire into that?

Mr. PARKER. Yes, sir; I do inquire into that.

Mr. KELLEY. Well, is there anything that would prevent you doing it?

Mr. PARKER. Prevent his doing what, sir?

Mr. KELLEY. Buying these supplies wherever he sees fit, even though he might be interested financially in the concern from which he buys?

Mr. PARKER. Under the present management, to the best of my knowledge, he can purchase wherever he pleases.

Mr. KELLEY. Even though he might be interested in a store himself and purchase from himself and fix the price himself?

Mr. PARKER. Yes, sir. The stevedore business the same way.

Mr. KELLEY. And the Government simply pays the bills?

Mr. PARKER. The repair-shop business is the same way.

Mr. KELLEY. You do not approve of that kind of business, do you, Captain?

Mr. PARKER. No, sir; I do not. I approve of the owner of the ship scrutinizing everything.

Mr. KELLEY. But still if you were at the head of the department to-morrow in place of Mr. Sterling, your hands would be tied upon that proposition, and you could not protect the Government against that, could you?

Mr. PARKER. As I understand it; I may be wrong, sir.

Mr. KELLEY. You are filling this position as an assistant, and any day might be called upon to fulfill the duties of your superior, so you ought to know?

Mr. PARKER. We do know, sir.

Mr. KELLEY. You would not be in a position, in your judgment, to protect the Government against that sort of purchasing, would you?

Mr. PARKER. Only by making a report to my superiors, which would be the commissioners, or Capt. Foley at present.

Mr. KELLEY. Is there anybody in your department here representing the Shipping Board that passes upon the reasonableness of bills before they go to Washington to be paid?

Mr. PARKER. Yes, sir.

Mr. KELLEY. The reasonableness, remember. Is there anybody that says, "This is too high a price that these operators have paid?"

Mr. PARKER. Yes, sir; I do a great deal of that. I pass on all bills in connection with Division of Operations in regard to the movement of ships and the towboat bills.

Mr. KELLEY. Suppose there was a charge there for coal. Would you scrutinize the price they had paid there for coal?

Mr. PARKER. Yes, sir; that is under the Division of Operations.

Mr. KELLEY. That is what I mean—coal for a ship?

Mr. PARKER. Under the Division of Operations; those that are under the sole management of the Division of Operations.

Mr. KELLEY. I am talking about ships that have been allocated to these various private corporations and are being operated for the Shipping Board.

Mr. PARKER. No, sir.

Mr. KELLEY. The Government pays the bills there just the same?

Mr. PARKER. Yes, sir.

Mr. KELLEY. Now, I want to know whether or not you would have authority to scrutinize their bills?

Mr. PARKER. As I understand now, I would not, sir.

Mr. KELLEY. And they can charge for coal any price they see fit?

Mr. PARKER. My only alternative, as I understand, would be to report to my superior, if I ever——

Mr. KELLEY. If you saw anything suspicious?

Mr. PARKER. Yes, sir.

Mr. KELLEY. But you would not be expected even to scrutinize those bills, would you?

Mr. PARKER. Well, I would be criticized as stepping on somebody else's corns.

The CHAIRMAN. We will excuse you now, Captain. Thank you.

TESTIMONY OF MR. NATHANIEL EDWARD PLATT.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Will you state your name, please?

Mr. PLATT. Nathaniel Edward Platt.

The CHAIRMAN. You hold some position with the Shipping Board?

Mr. PLATT. Port engineer.

The CHAIRMAN. For New York?

Mr. PLATT. North Atlantic district.

The CHAIRMAN. How long have you been with the Shipping Board?

Mr. PLATT. August 1, 1919.

The CHAIRMAN. What did you do?

Mr. PLATT. Chief engineer of ships.

The CHAIRMAN. Have you ever seen a copy of the report of the investigators of this committee?

Mr. PLATT. No, sir.

The CHAIRMAN. Are you prepared to testify as to matters contained in that report, or would you prefer to go through it?

Mr. PLATT. Well, I would like to see it before I testified.

The CHAIRMAN. Would you be willing to take a copy of that report and indicate in the margins your comments as to whether these conditions set forth there actually exist or whether you have knowledge of them, and mail it to the committee, you to be called later to testify?

Mr. PLATT. I will be glad to do so.

The CHAIRMAN. I will hand you that with a return envelope, Captain, and you can return that to the committee with your comments as to what you know or do not know, and we will then examine you further along that line.

Have you some questions, Mr. Kelley?

Mr. KELLEY. What are the duties of the port engineer?

Mr. PLATT. Handling of the personnel of Shipping Board vessels in the engine room—the engine personnel.

Mr. KELLEY. Is that all you have to do?

Mr. PLATT. That is all.

Mr. KELLEY. You do not have anything to do with the repairs?

Mr. PLATT. Nothing.

Mr. KELLEY. Who fixes the wages of the men?

Mr. PLATT. That is governed by the organization.

Mr. KELLEY. That is to say, on a Shipping Board ship, allocated to a private corporation——

Mr. PLATT. It does not make any difference.

Mr. KELLEY. The engineer's pay is fixed by the company operating the ship?

Mr. PLATT. No.

Mr. KELLEY. Who does fix it?

Mr. PLATT. By agreement between the organizations and the owners—the American Steamship Association.

Mr. KELLEY. You mean the labor organizations?

Mr. PLATT. Yes, sir; and the Shipping Board.

Mr. KELLEY. So that there is no chance for much leeway there?

Mr. PLATT. No leeway there at all.

Mr. KELLEY. If a man holds a certain position he gets a certain pay?

Mr. PLATT. A certain salary, on certain types of vessels.

Mr. KELLEY. And that is the only thing you have to do with the ship—the engine men?

Mr. PLATT. That is all. Just to keep the personnel as good as possible and see that there is no violation of agreements between the organizations——

Mr. KELLEY. You do not have very much to do, do you?

Mr. PLATT. Well, I have enough to do sometimes.

Mr. KELLEY. How many assistants have you?

Mr. PLATT. I have six.

Mr. KELLEY. And is there quite an office force besides?

Mr. PLATT. No; just six assistants. Their duty is to visit Shipping Board ships as they arrive in port, examine them as to the physical condition, and report back to the office.

Mr. KELLEY. Are these six assistants physicians? Are they doctors?

Mr. PLATT. No; they are engineers—ex-chief engineers of steamers, all practical men.

Mr. KELLEY. Do you examine the machinery to ascertain whether it has been properly handled or not?

Mr. PLATT. To see if the crew is keeping the department clean and tidy, and are taking care of the machinery in their charge. They make a report to me, and I take it up with the managing company and advise them, as the managers and operators of the vessel, to keep it up to the highest point of efficiency.

Mr. KELLEY. Have you a good lot of engineers on the ships?

Mr. PLATT. Not very good.

Mr. KELLEY. The ships are being damaged a good deal by inefficient men?

Mr. PLATT. I don't know whether you would call it inefficient men, but there are a good many accidents. It might be due to the increased number of American vessels that come under our notice.

Mr. KELLEY. How about the inferior workmanship on the ships? Are the ships all right?

Mr. PLATT. I don't know anything about the repairs to the vessel; I don't have anything to do with that.

Mr. KELLEY. You would not see the reports of your engineers as to whether they were constantly getting out of order or whether they were standing up well?

Mr. PLATT. We do not cover that particular part of the vessel, as to repairs. We stay away from the repairs, due to its being in another department absolutely. We only look after the personnel, and see that the personnel is fulfilling their duties on the vessel.

Mr. KELLEY. How can you tell?

Mr. PLATT. By the condition of the engine room. When a practical man goes into an engine room he can tell whether a man has been fulfilling his duty or not.

Mr. KELLEY. By the condition in which the machinery is left?

Mr. PLATT. By the condition in which it looks—the condition as to cleanliness.

Mr. KELLEY. Just the—don't you go further than that, just the matter of cleanliness? Don't you test out the matter of whether he is competent or not?

Mr. PLATT. We do that when he comes to us for approval.

Mr. KELLEY. At the end of a voyage what do you do in the way of further proof?

Mr. PLATT. If the ship has made a successful voyage and she comes in in clean and tidy condition, we do not have any further jurisdiction over her.

Mr. KELLEY. Suppose her engines have been badly damaged?

Mr. PLATT. We hold an investigation, and if we find it is due to lack of intelligence on the part of the engineer we order the managing company to remove him. We have no authority to take him off ourselves, but we order the managing company to take off the engineer and put in another more satisfactory to the interests of the Shipping Board.

Mr. KELLEY. These engineers buy some supplies themselves, do they?

Mr. PLATT. They do, through their managing companies, through their agents, wherever they may be. They always require something in almost every port they make.

Mr. KELLEY. When supplies are purchased, do they sign requisitions or something of that sort?

Mr. PLATT. They have to make a written requisition for it.

Mr. KELLEY. And do they have anything to do with placing the order?

Mr. PLATT. I do not think they have anything to do with it. I think it goes through the master, and from the master to the agent or the owner, whichever it may be.

Mr. KELLEY. Have you had any reports about engineers requiring commissions for supplies?

Mr. PLATT. Very often.

Mr. KELLEY. How would they get into the proposition at all if they do not place the order?

Mr. PLATT. Through finding fault, and other means they use—through finding fault with the nature of the supplies or the material. If they delay a ship, then it comes under our notice.

Mr. KELLEY. In other words, they might create a bad impression of an article to be used in the engine room—oil and other necessary supplies, asbestos, or whatever it is they use for packing, and all that; that it was not of good quality, and thereby put a firm on the black list?

Mr. PLATT. I would not say they would use that method entirely. It is just the matter of taste or opinion with engineers that one grade of material is better than another.

Mr. KELLEY. What I am getting at is, how could the engineer figure in the purchasing of supplies to such an extent that any contractor would be willing to pay the commission?

Mr. PRATT. He does not figure in it unless he finds fault with it, unless it is not up to what he considers his standard. He then refuses to take it, and very often he is justified in his stand, and very often he is not. It is all a matter of opinion.

Mr. KELLEY. You have heard quite a good deal of talk about engineers receiving commissions for supplies, haven't you?

Mr. PLATT. No. I have heard of quite a number of cases, but not of a good deal of it. They have nothing to do with the purchase of them.

Mr. KELLEY. I know, but having been in close contact with this branch of the service and those men, you would know of the general practice.

Mr. PLATT. We do get complaints sometimes where they demand commissions on stores, and where we do we call them up to the office. If we find that they demanded a commission, we put them out of the Shipping Board employ altogether. We have what we call a preferred list, and when a man does not handle his position clean we put him off that list and we do not employ him in the Shipping Board after that if we know it. But sometimes it gets away from us, or he might get in without our knowing it.

The CHAIRMAN. I believe that is all. If you will take that report of the committee's special investigators and return it with your notations, you may now be excused.

Mr. PLATT. All right.

**TESTIMONY OF MR. THOMAS J. MIGGINS, DISTRICT COMPTROLLER,
DIVISION OF OPERATIONS, UNITED STATES SHIPPING BOARD,
NEW YORK.**

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Mr. Miggins, please give your name.

Mr. MIGGINS. Thomas J. Miggins.

The CHAIRMAN. Do you hold an official position with the Shipping Board or the Fleet Corporation?

Mr. MIGGINS. Yes, sir.

The CHAIRMAN. What is your position?

Mr. MIGGINS. District comptroller of division of operations at New York.

The CHAIRMAN. How long have you been in that position?

Mr. MIGGINS. Since September 4, 1919.

The CHAIRMAN. Have you seen a copy of the report submitted to this committee by its investigators upon conditions in the Shipping Board and Fleet Corporation?

Mr. MIGGINS. No, sir; I have not.

The CHAIRMAN. Will you take a copy of this report and indicate in the margin your knowledge of the statement of conditions alleged to exist, if you have knowledge, and if not state that you have none, and mail it to the committee so that we can examine you later upon the alleged conditions and your knowledge thereof?

Mr. MIGGINS. Yes, sir.

The CHAIRMAN. We will notify you later when you can be heard.

Mr. MIGGINS. All right.

The CHAIRMAN. I hand you a copy of the report with return envelope.

Mr. MIGGINS. Yes, sir. By what date will you want this report?

The CHAIRMAN. I think we would like it by the 2d of December. There is a memorandum in there about when to return it and about putting your name on the report.

Mr. MIGGINS. All right.

The CHAIRMAN. Mr. Kelley may want to ask you a few preliminary questions.

Mr. KELLEY. Who is your superior officer at Washington?

Mr. MIGGINS. The general comptroller, Mr. Tweedale.

Mr. KELLEY. You are comptroller in the division of operations?

Mr. MIGGINS. Yes, sir; for the North Atlantic district.

Mr. KELLEY. Does that just include the city of New York and this vicinity?

Mr. MIGGINS. As far as Cape May.

Mr. KELLEY. How long have you been there?

Mr. MIGGINS. I have been district comptroller since September 4, 1919.

Mr. KELLEY. Do you have anything to do with inventories of supplies?

Mr. MIGGINS. Inventories of supplies?

Mr. KELLEY. Yes.

Mr. MIGGINS. That would come under the various bureau heads—requisitions and the vessel sections and bureau of auditing.

Mr. KELLEY. Would you be able to tell me at any time in your department—and I am not quite sure in my own mind what the duties are or how far they go or how they are divided up—how many tons of coal might be on hand at any one time, and how many barrels of flour, and so on?

Mr. MIGGINS. That might be on board vessels?

Mr. KELLEY. Yes.

Mr. MIGGINS. I imagine we can give that information by referring to the records.

Mr. KELLEY. That is what I mean, by reference to the records?

Mr. MIGGINS. Yes, sir.

Mr. KELLEY. All ships in the hands of operators, allocated ships?

Mr. MIGGINS. Assigned ships.

Mr. KELLEY. How could you do that as long as you do not purchase supplies?

Mr. MIGGINS. Well, as to those supplies, when the accounts come to us they simply show the revenues collected and disbursements made. When a vessel is assigned to an operator here in New York for management and operation, at the time that it is assigned the amount of fuel on board and consumable supplies are inventoried. The purchases that are then made will be put in the account, and as the account comes in revenue is collected and disbursements made.

Mr. KELLEY. Then do you have in your department proper records to show that supplies are actually delivered?

Mr. MIGGINS. For the actual delivery of supplies aboard vessels?

Mr. KELLEY. Yes.

Mr. MIGGINS. That, of course, would be looked after by the operator.

Mr. KELLEY. I know, but the Government is paying the bills, so that the operators interested may not be quite so pronounced in their interest as though they were paying for them themselves.

Mr. MIGGINS. That is true, but where Shipping Board vessels are operated and managed by the Shipping Board itself, the Purchasing Department makes the purchase of supplies, and we have from our office a man who looks after and sees that actual deliveries of those supplies are made aboard vessels.

Mr. KELLEY. I can readily see how that would be very likely to happen in the case of ships operated by the Government itself. But inasmuch as the Government pays the bills just the same on the other ships, I do not see why you should not follow the same course there; do you?

Mr. MIGGINS. Well, if you will realize that the operators are the agents of the United States Shipping Board, and are governmental

agents, inasmuch as these vessels have been allocated to them for management and operation, they, as the agents of the Government, should, as responsible people, see to it that actual deliveries of these goods are made. If they do not, then they are not.

Mr. KELLEY. Don't you think the Government ought to have some connection with those purchases, independent entirely of the operator, a record of them at least?

Mr. MIGGINS. A record of purchases?

Mr. KELLEY. And the prices to be paid.

Mr. MIGGINS. As a matter of fact, when the account comes in we know what the supplies purchased amount to.

Mr. KELLEY. Do you know whether they purchase them at retail or wholesale?

Mr. MIGGINS. As a matter of fact, the invoices would indicate that.

Mr. KELLEY. Can they purchase anywhere they like?

Mr. MIGGINS. Well, I can not imagine that it would be to their interest to purchase other than as economically as possible.

Mr. KELLEY. Why?

Mr. MIGGINS. For this reason, that their compensation on the old M. O. 3 agreement made it necessary for them to economically operate our vessels. The more economically they operated the vessels the greater their participation in the profits.

Mr. KELLEY. Suppose they owned a subsidiary company that was purchasing supplies; and is it unusual for an operator to own concerns that supply ships?

Mr. MIGGINS. No; I do not think it is.

Mr. KELLEY. It is quite usual, isn't it?

Mr. MIGGINS. I think it is.

Mr. KELLEY. Might it not be much more profitable for him to take his profits that way than the other way?

Mr. MIGGINS. Well, some operators, long before the creation of the Shipping Board, had these subsidiary companies, and they had them for the purpose of saving money.

Mr. KELLEY. That was when they were operating them themselves. But when selling to the Government, how about it then?

Mr. MIGGINS. Well, I don't think——

Mr. KELLEY (interposing). You are an accounting man and a business man?

Mr. MIGGINS. Yes, sir.

Mr. KELLEY. I want to know whether you approve of the proposition of allowing operators to purchase these supplies in any way they see fit, at wholesale, at retail, in small lots, by the dozen or bushel, whichever way they may see fit, and you have no check upon that by the Government?

Mr. MIGGINS. I would say no.

Mr. KELLEY. That is what is going on, isn't it?

Mr. MIGGINS. At the present; yes.

Mr. KELLEY. Can you think of any more wasteful method of expending Government funds than to permit that to go on in that way? Take, for instance, the question of meats and all that kind of thing, which can be and are in all large institutions purchased, like bacon, in large quantities, covering quite a period of time. How about that, as an example, compared to going out and buying at retail a little order to supply a ship that is going out?

Mr. MIGGINS. I would not approve of a practice of that kind; no.

Mr. KELLEY. The testimony is here, and you probably have heard of it, about their going out and buying small quantities of meats and other supplies—butter, for instance—at retail, and picking them up where they can find them, and not taking enough along to make a trip, and having to put in at foreign ports what they should have carried from home, with the Government of the United States paying the bill; who cares?

(Mr. Miggins makes no answer, but shakes his head.)

Mr. KELLEY. And there is nothing in your department which would keep any check upon these prices or methods of purchase.

Mr. MIGGINS. We certainly keep a check on prices.

Mr. KELLEY. You do not know, first, what the experience of the person making the purchase is, do you?

Mr. MIGGINS. No; except that we have only thoroughly practical men, men who are supposed to exercise good judgment in the purchase of supplies.

Mr. KELLEY. Some of these operating companies are very small companies, owning one or two ships, and with practically no organization at all, and yet they are given free rein, a free hand to buy in little dabs, all about the country, wherever they may need a little, instead of having a great reservoir, under contract, by which all these ships can be supplied, as the Navy supplies its ships.

Mr. MIGGINS. I think that is the system that should be had.

Mr. KELLEY. You are not responsible for that, are you?

Mr. MIGGINS. Hardly, sir.

Mr. KELLEY. We will find the man who is before we get through, probably.

The CHAIRMAN. That is all, Mr. Miggins, and you may be excused for the present.

Is Mr. Sterling here?

TESTIMONY OF MR. GEORGE W. STERLING, DISTRICT DIRECTOR OF OPERATIONS, UNITED STATES SHIPPING BOARD, NEW YORK.

(The witness was duly sworn by the Chairman.)

The CHAIRMAN. Your name, Mr. Sterling?

Mr. STERLING. George W. Sterling.

The CHAIRMAN. What position do you hold with the Fleet Corporation?

Mr. STERLING. District director of operations.

The CHAIRMAN. Located in New York?

Mr. STERLING. Yes, sir.

The CHAIRMAN. How long have you held that position?

Mr. STERLING. Since November 1, 1919.

The CHAIRMAN. Were you with the Fleet Corporation or the Shipping Board prior to that time?

Mr. STERLING. During the war I was for a few months in Washington in 1918.

The CHAIRMAN. Have you seen a copy of the report of the investigators of this committee?

Mr. STERLING. I just glanced at it; have not had a chance to read it.

The CHAIRMAN. Would you prefer to go through that report before testifying about conditions alleged to exist and as to which you may have knowledge?

Mr. STERLING. Yes, sir.

The CHAIRMAN. Will you take a copy of that report and indicate in the margin what you know as to conditions, the knowledge you have, and if you have no knowledge so state, and return it in this return envelope to the committee? I think we ask for it by December 2.

Mr. STERLING. Yes, sir.

The CHAIRMAN. And when we resume hearings we will recall you and you can testify from the notations you make.

Mr. STERLING. All right.

The CHAIRMAN. That is all, unless Mr. Kelley has a few questions as to your duties.

Mr. KELLEY. You are directly responsible to Capt. Foley, in Washington?

Mr. STERLING. Yes, sir.

Mr. KELLEY. You get your instructions entirely from him?

Mr. STERLING. Yes, sir; but simply in the operating and traffic departments.

Mr. KELLEY. What other departments are there?

Mr. STERLING. I mean, I have nothing to do with construction, repair, accounting, or any of those other departments, such as supplies and sales.

Mr. KELLEY. Isn't the accounting officer under you?

Mr. STERLING. No, sir.

Mr. KELLEY. Nor the construction and repair departments?

Mr. STERLING. No, sir.

Mr. KELLEY. Who is the head of that division here in New York?

Mr. STERLING. Commander Gatewood, of the Construction and Repair Department. He has Mr. Latourney under him, who is the local manager.

Mr. KELLEY. You determine what repairs are necessary?

Mr. STERLING. No, sir. It does not come before us at all.

Mr. KELLEY. You make surveys of ships?

Mr. STERLING. No, sir.

Mr. KELLEY. I think your assistant stated that was one of your chief duties.

Mr. STERLING. Some repairs; not all repairs that come along.

Mr. KELLEY. Why should not they all be either with you or somebody else.

Mr. STERLING. They do not.

Mr. KELLEY. Where is the line of demarcation?

Mr. STERLING. Under the present operating agreement, repairs up to \$10,000 are arranged by the operators, and above that the matter goes before the United States Bureau of Survey and is let out at contract.

Mr. KELLEY. In which case have you jurisdiction?

Mr. STERLING. Neither.

Mr. KELLEY. When do you make a survey of a ship to see what it needs in the way of repairs?

Mr. STERLING. In my department—the Marine Department—they inspect ships as they come in, and they make certain recommendations to the Repair Department. That would be voyage repairs.

Mr. KELLEY. They would be voyage repairs?

Mr. STERLING. Yes, sir.

Mr. KELLEY. What do you mean by that?

Mr. STERLING. Minor wear and tear and such things as that. The ships are gone over every two or three months, you know.

Mr. KELLEY. These repairs that you speak of as coming under your jurisdiction, are those casual repairs that arise as the result of a voyage?

Mr. STERLING. Yes, sir.

Mr. KELLEY. You do have jurisdiction over those?

Mr. STERLING. Yes, sir.

Mr. KELLEY. Are those repairs made by the crew?

Mr. STERLING. No, sir; the different yards make them. We confer with the repair department about them and they make arrangements about the repairs.

Mr. KELLEY. You say you confer with them. Somebody must have authority; don't you have the authority?

Mr. STERLING. Oh, yes; we advise them that such and such repairs are necessary on a certain ship.

Mr. KELLEY. Then are they required to make them?

Mr. STERLING. They are supposed to.

Mr. KELLEY. What I want to know is whether under your instructions are they required to make them?

Mr. STERLING. Yes, sir.

Mr. KELLEY. You have jurisdiction?

Mr. STERLING. Of that amount, yes, sir.

Mr. KELLEY. Up to \$10,000?

Mr. STERLING. No; it is only these voyage repairs that we have anything to do with.

Mr. KELLEY. How can you tell a voyage repair from any other kind of repair?

Mr. STERLING. Well, it would be wear and tear or replacements.

Mr. KELLEY. If there were a break of some kind, a shaft or something, how about that?

Mr. STERLING. That would not be wear and tear.

Mr. KELLEY. No; and that would be easily located, and that would not come under your jurisdiction?

Mr. STERLING. No, sir.

Mr. KELLEY. Why isn't it just as well to have all these repairs in one place? Why should you have anything to do with it at all if you do not have it all?

Mr. STERLING. I think it ought to be all in one place.

Mr. KELLEY. At which place?

Mr. STERLING. I think the man in New York should have charge, whoever is the director here.

Mr. KELLEY. That is, it should be in your department?

Mr. STERLING. Yes, sir.

Mr. KELLEY. Or if not in your department, then in the repair department; it should take jurisdiction of it entirely?

Mr. STERLING. Yes, sir.

Mr. KELLEY. In the matter of these minor repairs, do you decide what companies shall make them?

Mr. STERLING. No; the construction and repair department does that.

Mr. KELLEY. Does that necessitate that you should have a force of engineers in your department to make these surveys?

Mr. STERLING. We only have a few. They are used principally for inspection purposes. We inspect steamers as they come in, you know, to see if they are being kept in condition, and if everything is being kept in order. Of course, the construction and repair department have their own surveyors as regards other work.

Mr. KELLEY. So there are two sets of surveyors going over a ship?

Mr. STERLING. Yes, sir.

Mr. KELLEY. What is the necessity for that?

Mr. STERLING. Well, as I say, we only have—I couldn't tell you off-hand how many, but only a few to see that the physical condition of ships is kept up by the managing agents.

Mr. KELLEY. You have a purchasing department under your department?

Mr. STERLING. No, sir. That comes under the supply and sales department.

Mr. KELLEY. As superintendent of this force, I do not quite see what you have to do.

Mr. STERLING. Well, several months ago they changed things all around. I think it was last March when they changed some of the departments around.

Mr. KELLEY. Making them better or worse?

Mr. STERLING. I do not know as to that.

Mr. KELLEY. Well, you have been here and ought to know. Have they improved it?

Mr. STERLING. I should say so.

Mr. KELLEY. They have centralized authority or have they split it up?

Mr. STERLING. They have centralized it here in New York.

Mr. KELLEY. In whom?

Mr. STERLING. Mr. Sanford is the purchasing agent in New York, and he reports to the Director of Sales and Supplies in Washington.

Mr. KELLEY. Don't you have any jurisdiction over him?

Mr. STERLING. No, sir.

Mr. KELLEY. Don't you have any jurisdiction over the comptroller?

Mr. STERLING. No, sir.

Mr. KELLEY. Whom do you have jurisdiction over?

Mr. STERLING. The traffic and operating departments.

Mr. KELLEY. What are they?

Mr. STERLING. Well, in the traffic department we handle conferences on all rates, movements of freight, etc. Of course, in the marine department we keep track of steamers, inspect them, etc.

Mr. KELLEY. I would not consider that that was very much consolidation of duties.

Mr. STERLING. Well, there is a great deal of work.

Mr. KELLEY. How many ships do you have under your jurisdiction?

Mr. STERLING. I can tell you exactly in a minute. (Referring to paper.) In New York there are 80 managing agents, under which there are operating 671 ships.

Mr. KELLEY. You do not have jurisdiction over those to any extent, do you?

Mr. STERLING. Yes; they all have to report to our office, the managing agents do.

Mr. KELLEY. They make their own repairs and hire their own men, purchase their own supplies, so what do you have to do with them?

Mr. STERLING. Well, they come to us with all kinds of matters, rate matters——

Mr. KELLEY (interposing). Rates?

Mr. STERLING. Yes, sir; freight rates.

Mr. KELLEY. You do not fix freight rates, do you?

Mr. STERLING. In conference they are fixed; yes, sir. The operators do not fix the rates.

Mr. KELLEY. A conference between whom?

Mr. STERLING. A conference of the lines.

Mr. KELLEY. Do you sit in with them?

Mr. STERLING. I do not personally, but I have a traffic man who does, my representative.

Mr. KELLEY. What jurisdiction do you have?

Mr. STERLING. He has no jurisdiction over them, just confers with them.

Mr. KELLEY. He just talks it over?

Mr. STERLING. Yes, sir.

Mr. KELLEY. And they fix the rates?

Mr. STERLING. Practically so; yes, sir.

Mr. KELLEY. What particular use is there of the Government representative there? Can he approve or disapprove of the rates?

Mr. STERLING. We have a regular conference secretary, which is besides our representative, and the idea is to avoid wrangling.

Mr. KELLEY. What I am trying to get at is, has your department any charge, any authority, to veto the agreement reached?

Mr. STERLING. We have not here, but they have in Washington.

Mr. KELLEY. If your representative was dissatisfied with the agreement reached you would do what?

Mr. STERLING. Report it to Washington.

Mr. KELLEY. Who has charge of rate making down there?

Mr. STERLING. Mr. Murphy is the traffic manager.

Mr. KELLEY. Would he have authority to veto an arrangement?

Mr. STERLING. He would probably have to confer with Capt. Foley, the director.

Mr. KELLEY. Would Capt. Foley make rates?

Mr. STERLING. Yes.

Mr. KELLEY. Are you sure of that?

Mr. STERLING. It is under his jurisdiction.

Mr. KELLEY. Well, do I understand that all rates in existence are under the jurisdiction of Capt. Foley and could be vetoed at any time?

Mr. STERLING. Yes, sir.

Mr. KELLEY. You are certain of that?

Mr. STERLING. Quite certain.

Mr. KELLEY. Has he ever vetoed any that you know of?

Mr. STERLING. Not that I know of at this minute.

Mr. KELLEY. What other activities do you have?

Mr. STERLING. That is about all.

Mr. KELLEY. How many men altogether are there in your department?

Mr. STERLING. About 250.

Mr. KELLEY. Do you know how many altogether there are in the Shipping Board activities in the city of New York?

Mr. STERLING. No, sir.

Mr. KELLEY. Have you ever suggested that any of these departments be put under you?

Mr. STERLING. They were originally, the most of them, but they changed them all last winter. That is, they were not under me, as I was not there.

Mr. KELLEY. I mean under your office.

Mr. STERLING. Yes, sir.

Mr. KELLEY. Last winter they took all these different actual contract inspections, where they make contracts, out from under your jurisdiction entirely?

Mr. STERLING. Yes, sir.

Mr. KELLEY. They report now directly to Washington?

Mr. STERLING. Yes, sir.

Mr. KELLEY. Do you think that is a good business proposition?

Mr. STERLING. No.

Mr. KELLEY. What special reason do you think led the board to make that change?

Mr. STERLING. I do not know, sir. I have no idea.

Mr. KELLEY. They never found any fault with your work?

Mr. STERLING. No, sir.

Mr. KELLEY. How long have you been here?

Mr. STERLING. I joined the board on the 1st of November, and I was taken sick on the 1st of December and was away until in February. So some of this happened while I was away.

Mr. KELLEY. So whoever can make purchases here in the city of New York has no check here at all?

Mr. STERLING. Not with my department.

Mr. KELLEY. Has he with any department? The only check he has is 300 miles away.

Mr. STERLING. In Washington.

Mr. KELLEY. It would be better, wouldn't it, if all this had to come out from one head?

Mr. STERLING. Yes, sir.

Mr. KELLEY. And only one head make the report to Washington?

Mr. STERLING. Yes, sir.

Mr. KELLEY. It would be in the interest of economy, wouldn't it?

Mr. STERLING. Yes, sir; and in the interest of business efficiency also.

Mr. KELLEY. I suppose there is more or less duplication of work by reason of these several heads, isn't there?

Mr. STERLING. No; I do not think so.

Mr. KELLEY. You keep that pretty well separated out?

Mr. STERLING. Yes, sir.

Mr. KELLEY. That is all.

The CHAIRMAN. Mr. Sterling, you may be excused for the present. I will now call Mr. Patton.

TESTIMONY OF MR. J. N. PATTON, ACTING PORT CAPTAIN, UNITED STATES SHIPPING BOARD, NEW YORK.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. What is your name?

Mr. PATTON. J. N. Patton.

The CHAIRMAN. What position do you hold with the Shipping Board or Fleet Corporation?

Mr. PATTON. I am acting port captain.

The CHAIRMAN. How long have you held that position?

Mr. PATTON. I was assistant port captain for a while and have been acting port captain about a month and a half—pretty nearly two months.

The CHAIRMAN. Who is port captain?

Mr. PATTON. Who was?

The CHAIRMAN. Who is?

Mr. PATTON. I am acting port captain.

The CHAIRMAN. There is no port captain now?

Mr. PATTON. No, sir; not confirmed. I took Capt. Parker's place when he was promoted.

The CHAIRMAN. Have you seen the report of the investigators to the committee, with reference to conditions about here and elsewhere in the Shipping Board?

Mr. PATTON. No, sir.

The CHAIRMAN. Would you prefer to testify relative to the statements in that report after you had seen it or without seeing it?

Mr. PATTON. Either way you say.

The CHAIRMAN. Do you have knowledge as to the conditions alleged in the report?

Mr. PATTON. No, sir; I have never read it. All I know is what I have read in the newspapers.

The CHAIRMAN. Would you take a copy of the report, and go through it, and on the margin indicate what knowledge you have of conditions, or if you have no knowledge, so state?

Mr. PATTON. Yes, sir.

The CHAIRMAN. And return it to the committee on or before December 2, so that we may inquire of you later?

Mr. PATTON. All right.

The CHAIRMAN. I now hand you a copy of the report in an addressed envelope, to be returned.

Mr. PATTON. Shall I keep this and return it to you in person?

The CHAIRMAN. No; just make your notations on that report and drop it in the mail in that envelope.

Mr. PATTON. All right.

The CHAIRMAN. You will do that, will you?

Mr. PATTON. Yes, sir.

The CHAIRMAN. There are no further questions unless Mr. Kelley wishes to ask something.

Mr. KELLEY. Your immediate superior is Capt. Parker?

Mr. PATTON. Yes, sir.

Mr. KELLEY. And his superior is Capt. Sterling?

Mr. PATTON. Yes, sir.

Mr. KELLEY. And you report to Capt. Parker?

Mr. PATTON. Yes, sir.

Mr. KELLEY. What particular portion of the work of Capt. Parker falls to you for special attention?

Mr. PATTON. Well, the work of the port captain's office is varied; it is really the dumping ground for everything. We have six assistants that we send out to make a physical report on the condition of incoming steamers. And if steamers lay in the harbor, they make a second report to see that the machinery is up to standard, and that the decks are properly cleaned and in good shape, and that the boats are properly crewed and manned. If we find a vessel that is not being kept up properly, in our judgment, we take it up with the operators and send in a physical report to Washington with our recommendations on it. We also settle overtime disputes; and a hundred and one different things come in daily from the operating companies for us to settle. We hold investigations. If any graft or anything of that kind is charged as going on, immediately upon arrival of the boat we notify the operators to send the parties up to our office, where we hold an investigation. Off-hand, I could not tell you all our duties, but we are kept pretty busy down there.

Mr. KELLEY. You are immediately responsible to Capt. Parker?

Mr. PATTON. Yes, sir.

Mr. KELLEY. And the duties that he detailed are practically your duties, too, because you are his assistant?

Mr. PATTON. Yes, sir.

Mr. KELLEY. That is all.

The CHAIRMAN. That is all for the present, Mr. Patton. We will call you later, after we have received the copy of the report which has been given to you.

We will now call Mr. Gregory.

TESTIMONY OF MR. R. H. GREGORY, PORT STEWARD, NORTH ATLANTIC DISTRICT, UNITED STATES SHIPPING BOARD, NEW YORK.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Please give your name.

Mr. GREGORY. R. H. Gregory.

The CHAIRMAN. What position have you with the Shipping Board or the Fleet Corporation?

Mr. GREGORY. Port steward, North Atlantic district.

The CHAIRMAN. How long have you been in that position?

Mr. GREGORY. Since February 22 of this year.

The CHAIRMAN. Have you seen the report made by the investigators of this committee to the committee?

Mr. GREGORY. Not the actual report. I have seen newspaper accounts of it.

The CHAIRMAN. You have never gone through the report?

Mr. GREGORY. No, sir.

The CHAIRMAN. Are you willing to take a copy of the report and make notations in the margin as to your knowledge of the conditions alleged to exist by the report, or if you have no knowledge say so, and return it to the committee on or before December 2, so that we might inquire of you later.

Mr. GREGORY. Yes, sir.

The CHAIRMAN. And will you do that?

Mr. GREGORY. Yes, sir.

The CHAIRMAN. I now hand you a copy of the report in an addressed return envelope, and you will make those notations and get it back to us before December 2.

Mr. GREGORY. All right.

The CHAIRMAN. Any questions, Mr. Kelley?

Mr. KELLEY. Mr. Gregory, who fixes the ration of a Shipping Board ship?

Mr. GREGORY. Virtually the steward of the ship.

Mr. KELLEY. He feeds the boys as much or as little as he likes?

Mr. GREGORY. Pending the check-up on his return. Then, if there has been an excess or too little used, he awaits action on his return.

Mr. KELLEY. Each steward is a law unto himself about how much he shall feed the boys, how much they shall have?

Mr. GREGORY. To a certain extent only. He is handed stores to disburse while at sea. Then, when he comes back, he makes an accounting of how he disbursed them.

Mr. KELLEY. Then they might get much better food on one ship than on another, and more or less of it?

Mr. GREGORY. That is very probable.

Mr. KELLEY. He orders supplies himself, too, doesn't he?

Mr. GREGORY. He writes out a requisition, which is submitted to the port staff of the managing company. They in turn would scrutinize that requisition.

Mr. KELLEY. If the Government pays the bills, why would they scrutinize it?

Mr. GREGORY. I did not quite get that question?

Mr. KELLEY. I asked, as long as the Government pays all of the bills, buys all the supplies—doesn't it?

Mr. GREGORY. No; not for a managing agent. The managing agent buys his own supplies.

Mr. KELLEY. Do you mean the ships allocated to the different companies?

Mr. GREGORY. Yes, sir.

Mr. KELLEY. The managing agent buys them but the Government pays for them.

Mr. GREGORY. They reimburse the operating company.

Mr. KELLEY. Well, that is the same thing. They pay for the supplies.

Mr. GREGORY. Yes, sir.

Mr. KELLEY. What difference would it make to the managing agent whether the steward gave cheap or dear supplies?

Mr. GREGORY. What difference to the Government, did you ask?

Mr. KELLEY. No; to the company operating the ships. What difference does it make to the managing agent, for instance?

Mr. GREGORY. It would affect the commission that would be paid by the Government for managing that vessel.

Mr. KELLEY. Is some limitation put on their expenses for food?

Mr. GREGORY. There is no limitation, but there is a general average cost, which is arrived at.

Mr. KELLEY. I know there is probably some practice about it, but I want to know if there is any authority anywhere to direct the

steward of the ship to give a certain ration or not, or is it within his discretion entirely, or practically so.

Mr. GREGORY. He would not have attained the position of steward, in the first place, if he had no knowledge of the position.

Mr. KELLEY. Yes; I know that.

Mr. GREGORY. Then he is expected to feed his ship what is customary in good practice, according as they may be passenger vessels or freight vessels.

Mr. KELLEY. What is the present value of a ration that he is allowed to give?

Mr. GREGORY. I think about \$1.20 to \$1.25, and all over that is excess.

Mr. KELLEY. Do you mean \$1.25 per day?

Mr. GREGORY. Per man per day; yes, sir.

Mr. KELLEY. Do you know what the value of the ration is in the United States Navy?

Mr. GREGORY. Do you mean, do I know the cost per day per man there?

Mr. KELLEY. Yes.

Mr. GREGORY. I would not be sure of my figure, but I think it is somewhere around 80 cents at the present time.

Mr. KELLEY. Isn't it 69 cents?

Mr. GREGORY. I think the later figure is up near 80 cents, though I am not quite sure, but I feel that it is above 69 cents. The reason for that would be that the original purchases in the Navy are controlled by large contracts, which ultimately affect the figure.

Mr. KELLEY. Which is the larger institution, the Navy or the Shipping Board?

Mr. GREGORY. You are beyond me.

Mr. KELLEY. How many men are there on the Shipping Board ships being fed by the commissary department of the Shipping Board?

Mr. GREGORY. I would say, approximately, about 6,000.

Mr. KELLEY. Why, only 6,000?

Mr. GREGORY. Between 6,000 and 7,000.

Mr. KELLEY. Do you mean here in New York?

Mr. GREGORY. I understood you to mean the number of men fed on vessels of the United State Shipping Board. That is taking about 50 in a crew.

Mr. KELLEY. Is that the average crew?

Mr. GREGORY. The average would be less than that. The average would be around 40, perhaps.

Mr. KELLEY. How many men are there on a 5,000-ton ship?

Mr. GREGORY. I think 32 men.

Mr. KELLEY. How many men on a 10,000-ton ship?

Mr. GREGORY. Forty-five or 47. There are many things that change that, whether it is a coal or an oil-burning vessel would make a difference.

Mr. KELLEY. Fifty times 1,200 would be 60,000, wouldn't it?

Mr. GREGORY. Yes, sir.

Mr. KELLEY. There would be quite a difference between 6,000 men and 60,000 men?

Mr. GREGORY. Oh, you are talking about the whole fleet?

Mr. KELLEY. Yes.

Mr. GREGORY. Yes, sir.

Mr. KELLEY. Are there 60,000 men in the Navy?

Mr. GREGORY. I could not tell you.

Mr. KELLEY. There are really more men to be fed on the sea in the Shipping Board than in the Navy, aren't there?

Mr. GREGORY. I should think so at the present time.

Mr. KELLEY. Why can not the Shipping Board buy as cheaply and feed as cheaply as the Navy?

Mr. GREGORY. They could under proper conditions.

Mr. KELLEY. But they are not doing it at this time?

Mr. GREGORY. No, sir.

Mr. KELLEY. Can each steward buy when he comes into port?

Mr. GREGORY. No, sir; not in a home port. When he comes into a home port he figures what he will require and makes a requisition.

Mr. KELLEY. Who turns that over to him, or he turns it over to whom?

Mr. GREGORY. The port steward of the organization of the managing agent.

Mr. KELLEY. And that is turned over to you?

Mr. GREGORY. No, sir; it is turned over to the port steward of the managing agent.

Mr. KELLEY. So, there would be 80 different purchasing agents for the Shipping Board in New York alone?

Mr. GREGORY. Yes, sir.

Mr. KELLEY. For the different ship operators?

Mr. GREGORY. Yes, sir.

Mr. KELLEY. Then you purchase everything for the Shipping Board ships, do you?

Mr. GREGORY. For the Shipping Board's directly managed ships; yes, sir.

Mr. KELLEY. That is what I meant.

Mr. GREGORY. I do not purchase them, but I requisition them through the Purchasing Department.

Mr. KELLEY. I mean the Government does.

Mr. GREGORY. Yes, sir.

Mr. KELLEY. The purchasing agent for the Government, through you, supplies ships that are operated by the Government?

Mr. GREGORY. The United States Shipping Board is not operating any vessels at the present time. The vessels we have are in the interim between managers, delivered to the Shipping Board for a week or 10 days or for a month, and vessels that are under repair or that are not allocated. They generally lie out in the stream and we feed them and purchase stores to feed them.

Mr. KELLEY. Those 80 agents of the United States Government go out and bid against each other for supplies, do they, in New York?

Mr. GREGORY. They go out and bid in the open market.

Mr. KELLEY. Yes. What effect does that have on the market?

Mr. GREGORY. The effect of raising the market.

Mr. KELLEY. How do you explain that the most fundamental of ideas of buying supplies is not pursued by the Shipping Board? Here is a great organization with 60,000 men on the seas, and yet it permits 80 different agencies to buy these supplies in one town. Is that good business?

Mr. GREGORY. No, sir.

Mr. KELLEY. It is the most wasteful kind of purchasing, isn't it?

Mr. GREGORY. Yes, sir.

Mr. KELLEY. Who is responsible for that system?

Mr. GREGORY. I can not answer that. I do not know.

Mr. KELLEY. I thought probably you would not. You do not approve of it, anyhow.

Mr. GREGORY. No, sir. Further than that, I will tell you that there is at the present time a scheme being worked up whereby the Shipping Board is going to contract for all the supplies it needs.

Mr. KELLEY. There really does not need any scheme to be worked up, and I do not mean by the use of the word "Scheme" to use it in an obnoxious sense, but there are great corporations—for instance, how many vessels does the Standard Oil Co. have on the seas?

Mr. GREGORY. I should think they would have somewhere around 65 in their fleet. That is, their whole fleet.

Mr. KELLEY. They have a central purchasing department, don't they?

Mr. GREGORY. I suppose so.

Mr. KELLEY. They do not allow each captain or steward to go in and buy against another one of their captains or stewards for what they need. And there is the United States Navy, with a thoroughly worked out system, wherein the ration expense runs about 69 cents. It may be more than that now, I am not sure, but that was the amount when I last saw it.

Mr. GREGORY. A ration on a man of war is entirely different from a ration on a freight vessel.

Mr. KELLEY. It is better on board a man of war, is it not?

Mr. GREGORY. No, sir.

Mr. KELLEY. Are you sure?

Mr. GREGORY. Quite sure.

Mr. KELLEY. Do you think the boys get better food on a Shipping Board ship than they do on a naval vessel; more of it or a greater variety?

Mr. GREGORY. Yes, sir.

Mr. KELLEY. Well, they do not get better food, that is certain.

Mr. GREGORY. Not quality, not as regards——

Mr. KELLEY. As to quality?

Mr. GREGORY. They get more variety, and——

Mr. KELLEY. And more of it?

Mr. GREGORY. Yes; and more of it.

Mr. KELLEY. Did you ever hear any of the boys complain on a man of war about the amount of food they had, or declined, any more than the boys on the other ships?

Mr. GREGORY. Well, you will hear complaints on a freight ship; you could give them turkey three times a day, and they will kick.

Mr. KELLEY. Well, we all complain more or less about our foods, you know; but I mean, reasonable complaints.

Mr. GREGORY. No; the complaint would not require investigation.

Mr. KELLEY. Undoubtedly, the Government would like to supply a splendid, first-class ration in both those services, and should do so, but it should be done on a wholesale basis, when you have at least

60,000 men in the service to feed. That almost goes without saying, does it not?

Mr. GREGORY. Surely.

Mr. KELLEY. And yet, during the whole time that the Shipping Board has had these ships, they have been buying at retail practically, each of their agents bidding against the other; that is correct, is it not?

Mr. GREGORY. I would not say the whole time.

Mr. KELLEY. Well, they never have had the other system in force, have they?

Mr. GREGORY. Yes, sir. The supplies during the time that the division of operations was actually operating the vessels, that is during the war, the purchasing department of the Shipping Board then purchased all the supplies that were used on board the vessels. Since the war and the vessels have been allocated to private managers, they have not done it.

Mr. KELLEY. They have simply retained the privilege of paying the bills since then?

Mr. GREGORY. Yes, sir.

Mr. KELLEY. Now, you say it is costing the Government \$1.35 per day per man?

Mr. GREGORY. \$1.25.

Mr. KELLEY. \$1.25 a day?

Mr. GREGORY. I say that is a general average figure.

Mr. KELLEY. Do you know how much it cost the Government per man during the war, when you say the other system was in operation?

Mr. GREGORY. I have not got that figure right now, but I can get it.

Mr. KELLEY. It was approximately the same as the Navy, was it not; about 80—

Mr. GREGORY. Eighty-seven cents, I think.

Mr. KELLEY. A little more than the Navy?

Mr. GREGORY. Yes.

Mr. KELLEY. Eighty-seven cents. Now, with 60,000 men, the difference between 87 cents and \$1.25—and food was higher then than now, too, was it not; there has been a little decline?

Mr. GREGORY. There has been a little decline lately.

Mr. KELLEY. There would be nearly 40 cents difference per man?

Mr. GREGORY. Per day.

Mr. KELLEY. Per day. That runs into money, you see, pretty fast; and your judgment is that the whole matter should be modified, the whole matter of making purchases should be changed, is it not?

Mr. GREGORY. Be changed; yes, sir. As I started to tell you, there is a schedule or there is machinery now being prepared whereby the Shipping Board will enter more into the purchasing of supplies for the Shipping Board vessels. It is not in effect yet; it has been tried out in the port of Baltimore, but it has not been generally instituted.

Mr. KELLEY. How long has Mr. Foley been at the head of the Division of Operations in Washington?

Mr. GREGORY. I do not exactly know the date he was appointed, but I should think about 18 months; hardly that long, it has been 12 months, I guess.

Mr. KELLEY. What has been your experience in purchasing supplies before you entered the employment of the Government?

Mr. GREGORY. About 18 years as chief steward.

Mr. KELLEY. At sea?

Mr. GREGORY. At sea, and also in the employ of different private corporations.

Mr. KELLEY. What particular corporation were you employed by?

Mr. GREGORY. The last one before I joined the United States Shipping Board was the P. & O. Steamship Company.

Mr. KELLEY. How many steamships did they operate?

Mr. GREGORY. I think about 300.

Mr. KELLEY. And you were an assistant there, probably?

Mr. GREGORY. Yes.

Mr. KELLEY. Who was at the head of their purchasing department when you left?

Mr. GREGORY. Clyne, C-l-y-n-e.

Mr. KELLEY. And they purchased their supplies, of course, at wholesale?

Mr. GREGORY. They purchased their supplies at wholesale.

Mr. KELLEY. And each steward did not buy his own supplies?

Mr. GREGORY. No; he did not buy his supplies.

Mr. KELLEY. Do you see to it that the ships have enough supplies to last the round trip?

Mr. GREGORY. No, sir; it does not come through the office of the Shipping Board.

Mr. KELLEY. If the steward of the ship undersupplied himself, he would have to buy abroad?

Mr. GREGORY. Yes, sir.

Mr. KELLEY. How long would it take those bills to get around, before they were finally passed under the eye of the Shipping Board, the Government?

Mr. GREGORY. That would depend a whole lot on where the supplies were purchased.

Mr. KELLEY. Well, say a trip to Europe, or the Mediterranean.

Mr. GREGORY. I should think a month or six weeks; probably two months.

Mr. KELLEY. After the ship got back, before the bills would be here?

Mr. GREGORY. No; from the date of the purchase.

Mr. KELLEY. Well, that would be pretty fast, would it not? It takes the ship how long?

Mr. GREGORY. About 15 days, if she was coming direct back; 15 or 20 days.

Mr. KELLEY. Do you mean to say that the bills follow a round trip voyage within a month, as a rule?

Mr. GREGORY. Well, the purchase would be made, in a hypothetical case, say on the 1st of the month, in say a port in France. The agent there for the Shipping Board would collect these bills up from the vendor, approve them and possibly pay them, and then forward them back to the managing agent, say in New York. That would take approximately a month or six weeks before they actually got back to the Shipping Board.

Mr. KELLEY. You have had 18 years' experience?

Mr. GREGORY. Yes, sir.

Mr. KELLEY. As a steward?

Mr. GREGORY. Yes, sir.

Mr. KELLEY. Or as an assistant?

Mr. GREGORY. In the steward's department, connected with vessels.

Mr. KELLEY. Yes. Do you know of any steamship company, in all your experience, with any considerable number of steamers, that purchased supplies, supplied its ships, under any such plan as is followed at the present time by the United States Shipping Board, with 1,200 ships on the seas?

Mr. GREGORY. No; because this condition has never existed——

Mr. KELLEY. Nobody else would ever do a thing like this?

Mr. GREGORY. I mean, there was no such large fleet to purchase for before.

Mr. KELLEY. No; but all the reason is on the side of adopting a wholesale plan?

Mr. GREGORY. Yes, sir.

The CHAIRMAN. I think that is all, Mr. Gregory; if you will make your notes and return the report to us before December 2.

Mr. GREGORY. Yes, sir.

TESTIMONY OF MR. DANIEL C. COLLINS.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Your name, Mr. Collins?

Mr. COLLINS. Daniel C. Collins.

The CHAIRMAN. Where do you reside?

Mr. COLLINS. Two hundred and thirty-seven East One hundred and ninety-fourth Street, New York City.

The CHAIRMAN. Are you employed by the Shipping Board or Fleet Corporation, Mr. Collins?

Mr. COLLINS. I am.

The CHAIRMAN. In what capacity?

Mr. COLLINS. Chief of the requisitioned vessel section.

The CHAIRMAN. And how long have you been employed there?

Mr. COLLINS. By the Shipping Board?

The CHAIRMAN. Yes, sir.

Mr. COLLINS. Since December, 1918.

The CHAIRMAN. Where is your office, here in New York?

Mr. COLLINS. Forty-five Broadway.

The CHAIRMAN. Have you seen a copy of the report submitted to this committee by its investigators, Mr. Collins?

Mr. COLLINS. I have not.

The CHAIRMAN. You have no knowledge, then, from having seen the reports, of course, of the statements contained in it. Would you take a copy of that report and make notations in the margin, as to your knowledge of the statements made, and the conditions alleged to exist with reference to various topics in the report, or if you have no knowledge, simply state that you know nothing about it, and return it to the committee on or before December 2?

Mr. COLLINS. Yes; to the best of my knowledge.

The CHAIRMAN. Well, if you know nothing, there will be many topics undoubtedly in the report about which you will know nothing at all, because they do not come under your supervision or your observation; but as to matters there of which you do have knowledge, as

to whether the conditions you know exist or do not exist, or if you do not know anything about it, if you will indicate that in the book and return it to us before December 2; will you?

Mr. COLLINS. I will.

The CHAIRMAN. Then we will call you later for further examination, after we have received the book. I hand you a copy of the report in an addressed return envelope, which I will ask you to use.

Have you any questions, Mr. Kelley?

Mr. KELLEY. How many requisitioned vessels have we still under the control of the Shipping Board?

Mr. COLLINS. So far as I know, they have all been returned.

Mr. KELLEY. I thought you said you were the head of the bureau of the division of requisitioned vessels? Perhaps I did not quite hear you rightly.

Mr. COLLINS. Well, my duties in the requisitioned section consists of the audit, adjustment, and settlement of the accounts of operation of requisitioned vessels.

Mr. KELLEY. Although the ships have all been returned, the accounts have not been settled?

Mr. COLLINS. The ships have been returned but the accounts have not been settled.

Mr. KELLEY. How many people have you in your office?

Mr. COLLINS. At the present time approximately 75, in the office and outside.

Mr. KELLEY. It is an auditing department that you are in charge of?

Mr. COLLINS. The auditing and settlement of claims.

Mr. KELLEY. And you are the chief?

Mr. COLLINS. Yes.

Mr. KELLEY. Do you settle the claims yourself?

Mr. COLLINS. I settle the claims.

Mr. KELLEY. Free hand?

Mr. COLLINS. Through cooperation with Washington.

Mr. KELLEY. What is your instructions about settling claims.

Mr. COLLINS. Make a proper audit of the accounts, determine what is properly chargeable to the Shipping Board, and settle on that basis.

Mr. KELLEY. You actually settle?

Mr. COLLINS. Actually settle.

Mr. KELLEY. Are there any limitations on your judgment?

Mr. COLLINS. Yes; limited by the different departments in Washington—the contract department and the comptroller's office.

Mr. KELLEY. What is the limit? Do you settle a claim of any size?

Mr. COLLINS. If they give me the decisions—if they have authorized the rulings which I am to follow in deciding what is to be allowed and what is not properly chargeable to the board.

Mr. KELLEY. They lay down the directions?

Mr. COLLINS. They lay down the directions.

Mr. KELLEY. And you make the application to each case?

Mr. COLLINS. Yes, sir.

Mr. KELLEY. In case there has been no case as a precedent, you make one?

Mr. COLLINS. I refer to Washington for a further ruling.

Mr. KELLEY. And with that general understanding, you go ahead and settle cases involving settlements of any amount.

Mr. COLLINS. With the approval; these settlements are approved by Washington, by the Comptroller's office.

Mr. KELLEY. Then you only recommend, it takes his counter-signature of the vouchers?

Mr. COLLINS. Yes.

Mr. KELLEY. Before they become effective?

Mr. COLLINS. Before the payment is made.

Mr. KELLEY. How long will it take you to clean up this work?

Mr. COLLINS. I am not in a position to answer that now. I have only been head of this section for two months.

Mr. KELLEY. Have you had much trouble about settling for supplies that were on the ships when they were taken?

Mr. COLLINS. Considerable trouble in regard to the inventories at the time the vessels were requisitioned, and at the time they were returned to the owners.

Mr. KELLEY. Both ways?

Mr. COLLINS. Both ways.

Mr. KELLEY. Well, did you have adequate inventories when the vessels were taken over?

Mr. COLLINS. In a good many cases, we did not.

Mr. KELLEY. And how about it when they were returned?

Mr. COLLINS. In a majority of the cases we had inventories when they were returned.

Mr. KELLEY. Then most of your trouble comes from the inventories made at the time the ships were taken over?

Mr. COLLINS. Yes.

Mr. KELLEY. That might be excusable, perhaps.

Mr. COLLINS. It would, under those conditions.

Mr. KELLEY. But upon the return there would not be much excuse for not having the inventories absolutely accurate, would there?

Mr. COLLINS. No; in most cases there is no reason why they should not be accurate inventories.

Mr. KELLEY. Were there many cases of that kind, where the inventories were not accurate or were so uncertain as to lead to dispute?

Mr. COLLINS. They have led to dispute, but the principal cause is on account of the fact that inventories at the time of delivery that are being estimated are not accurate. Adjustment is to be made between the two inventories.

Mr. KELLEY. Do you find many cases of missing supplies, missing furniture, missing equipment, for which claims have been put in?

Mr. COLLINS. Well, there is a certain amount of that in every case, with two inventories; one inventory will be checked against the other and show missing equipment.

Mr. KELLEY. Yes. Who has charge of the equipment on the ship? What officer on the ship has charge of the equipment, whose duty it is to see that nothing disappears?

Mr. COLLINS. Well, that would depend on what equipment you refer to.

Mr. KELLEY. In the engine room there would be the engineer?

Mr. COLLINS. In the engine room the chief engineer; the deck equipment under the chief officer; steward's supplies under the steward.

Mr. KELLEY. In which of these departments does most of your trouble come, about missing supplies; the deck, the steward, or the engine room.

Mr. COLLINS. It applies principally to the deck and engineer's department.

Mr. KELLEY. Not much trouble with the steward?

Mr. COLLINS. Very little.

Mr. KELLEY. Did you say how long you thought it would be before you would have these accounts all closed out?

Mr. COLLINS. I had made an estimate that it would be about six months, but immediately after making that estimate about half of my force was taken away for other work. Now I am not in a position to estimate.

Mr. KELLEY. You had 150 people in this department?

Mr. COLLINS. Not since I have been in charge of it.

Mr. KELLEY. But somebody did; your predecessor or somebody.

Mr. COLLINS. I believe so; a considerable time ago.

Mr. KELLEY. How many accounts have you yet to settle?

Mr. COLLINS. I could not answer that question at the present time.

Mr. KELLEY. My recollection was there were 500 of these vessels, were there?

Mr. COLLINS. In round figures?

Mr. KELLEY. 451?

Mr. COLLINS. Something around there.

Mr. KELLEY. And some of them, many of them, were owned by the same company?

Mr. COLLINS. Well, they requisitioned practically the entire fleet of each company.

Mr. KELLEY. Yes. Do you settle each ship separately, or do you settle each claim?

Mr. COLLINS. As I am handling it now, I am attempting to make a complete settlement with each other company, their entire claim on the requisitioned vessels.

Mr. KELLEY. There is no reason why you can not do that, is there?

Mr. COLLINS. No. I can do it.

Mr. KELLEY. I should think you could estimate the time it would take to close that work out.

Mr. COLLINS. I can not, for the reason that I do not know how many of my force they will take for this new work, because they are continually drawing upon them. As my force is being decreased it is impossible for me to give an estimate.

Mr. KELLEY. Well, with a force of 75 people, how long would it take you?

Mr. COLLINS. Approximately five months. Certain conditions may arise affecting some of the settlements that will delay them. There are not any two cases alike on requisition.

The CHAIRMAN. That is all, Mr. Collins. Thank you; if you will return that report. There is a little memoranda in there about mailing it, putting your name upon the copy, and where the notations should be made.

Mr. COLLINS. All right.

TESTIMONY OF MR. MORRIS M. McLAUGHLIN.

(The witness was sworn by the chairman.)

The CHAIRMAN. What is your name, Mr. McLaughlin.

Mr. McLAUGHLIN. Morris M. McLaughlin.

The CHAIRMAN. You are with the Fleet Corporation or Shipping Board?

Mr. McLAUGHLIN. Yes, sir.

The CHAIRMAN. In what capacity?

Mr. McLAUGHLIN. As auditor of repairs.

The CHAIRMAN. How long have you been with them?

Mr. McLAUGHLIN. I have been auditor of repairs since about August 25, 1920.

The CHAIRMAN. Were you with them before?

Mr. McLAUGHLIN. Yes.

The CHAIRMAN. In what capacity?

Mr. McLAUGHLIN. Why, I first came in there in October, 1918, as a field auditor, and about a year later was made supervising field auditor, and just moved into this position recently.

The CHAIRMAN. Your residence is what?

Mr. McLAUGHLIN. 15 Baldwin Avenue, Jersey City.

The CHAIRMAN. And your office is in New York?

Mr. McLAUGHLIN. 45 Broadway; yes, sir.

The CHAIRMAN. Are you part of Mr. McNeary's force?

Mr. McLAUGHLIN. No; Mr. Miggin.

The CHAIRMAN. Have you seen a copy of the report of the investigators of this committee, submitted to this committee?

Mr. McLAUGHLIN. No, sir; I never have.

The CHAIRMAN. You know nothing, then, of course, as to the statements of alleged conditions?

Mr. McLAUGHLIN. Well, of course, only news items I have read in the papers.

The CHAIRMAN. I mean from the reports?

Mr. McLAUGHLIN. No, no; not officially.

The CHAIRMAN. Will you take a copy of this report. Mr. McLaughlin, and indicate in the margin your knowledge as to the facts alleged to exist by the report. or if you have no knowledge. simply write and say you have no knowledge, and return it to the committee on or before December 2, in this addressed return franked envelope.

Mr. McLAUGHLIN. Yes, sir.

The CHAIRMAN. There will be many matters, of course. about which you will know nothing at all?

Mr. McLAUGHLIN. Yes, sir.

The CHAIRMAN. And there may be some matters there of which you have knowledge. and of which the report is not a correct statement. We would ask you to set forth, if you will, your knowledge on those matters. Then later after we have received this. we will call you and examine you upon the matters in that report. I will hand you copy of the report.

Have you any questions, Mr. Kelley?

Mr. KELLEY. Just one or two. What control do you have over the vouchers for repairs on ships in the hands of the operators?

Mr. McLAUGHLIN. Why, at the present time the vouchers are not compiled in the Shipping Board offices. The requisitions are issued,

and they are certified to by the Bureau of Survey. The Bureau of Survey notifies us, and we immediately place checkers on time and material work. When the bills compiled by the repair yards are submitted, they are then sent to the operators, who approve them as ordering the repairs, and they reach our office and of course we audit the bill. Then we return the bill to the operator again, through the Bureau of Survey for payment.

Mr. KELLEY. Let us see if we can follow a case through. so I will get it in my mind. A ship comes in to the New York port with some repair necessary. Who first passes on the necessity of the repair?

Mr. McLAUGHLIN. The superintending engineer of the operators. He first has the list of repairs handed to him by his engineer on board, his chief officer, and he goes over that list, I presume; that is the course it follows through his office, and then the requisition being approved by the superintending engineer of the operator, it then goes to the Bureau of Survey.

Mr. KELLEY. The Bureau of Survey is made up of whom; not in names, but in interest?

Mr. McLAUGHLIN. The Bureau of Survey is an organization which in reality took the place of the Construction and Repair Department in so far as repairs are concerned.

Mr. KELLEY. That is, it is a Government agency?

Mr. McLAUGHLIN. Yes.

Mr. KELLEY. It is a Shipping Board agency?

Mr. McLAUGHLIN. That is right.

The CHAIRMAN. It is a private corporation.

Mr. KELLEY. The chairman says it is a private corporation.

Mr. McLAUGHLIN. Well, there is an agreement between the Shipping Board and the United States Bureau of Survey to handle the repair work for them.

Mr. KELLEY. Oh, they are the agents of the Government?

Mr. McLAUGHLIN. Yes.

Mr. KELLEY. By agreement?

Mr. McLAUGHLIN. It is controlled by two partners, I believe, Mr. Martin and Mr. Gartner.

Mr. KELLEY. They are the representatives of the United States Government?

Mr. McLAUGHLIN. Yes, sir.

Mr. KELLEY. By arrangement?

Mr. McLAUGHLIN. That is all.

Mr. KELLEY. By contract, probably?

Mr. McLAUGHLIN. That is all.

Mr. KELLEY. They take the operator's demand or requisition for repairs and pass upon that?

Mr. McLAUGHLIN. Yes.

Mr. KELLEY. And if the repairs are necessary they O. K. the demand of the operator?

Mr. McLAUGHLIN. Yes.

Mr. KELLEY. Then what happens?

Mr. McLAUGHLIN. Then the requisition—that is, certain copies of it—are returned to the operator for his files, and sufficient copies, three in number, are sent to our office, enabling us to check the repairs.

Mr. KELLEY. Let us see; who makes the requisition?

Mr. McLAUGHLIN. The operator.

Mr. KELLEY. He makes the requisition upon whom?

Mr. McLAUGHLIN. He makes the requisition for the repairs, naming the vessel, showing the repairs to be made; then he designates the repair yard in which he is having his work done.

Mr. KELLEY. "Requisition" is really not the right word, is it, there?

Mr. McLAUGHLIN. Well, in so far as repairs are concerned, I should say yes. It is a requisitionary list of repairs that are needed.

Mr. KELLEY. Then, armed with that, the operator places the contract for these repairs in any yard that he sees fit?

Mr. McLAUGHLIN. Any yard that is on the approved list of the Shipping Board. You see, in order that we may get this straight, the yards are forced to submit their working rates—hourly rates, and so on, for different mechanics—to the Shipping Board office, and they are placed on an eligible list, or an approved list; and, of course, a contractor who would not be on that list would not be eligible for work on Shipping Board work.

Mr. KELLEY. Has there been any complaint from repair men that they could not get on that list?

Mr. McLAUGHLIN. Not that I heard of; no, sir. There were complaints—I mean, at times there may be differences as to their rates, but they generally accept the rates which the Shipping Board is paying. That is really about the only complaint I have heard; they are minor.

Mr. KELLEY. About the only requirement necessary to get on that list, I take it from what you say, is that the prices of labor shall be satisfactory?

Mr. McLAUGHLIN. Well, that is, in so far as the auditing end of it is concerned. I mean, that we deal with. Of course, the engineering department of the Shipping Board, if they have trouble on account of poor workmanship or something else, that would be a cause to remove that name.

Mr. KELLEY. The only thing you look into is the extension of the hours, the labor item?

Mr. McLAUGHLIN. Well, I should not say that is the only thing.

Mr. KELLEY. As far as your discretion goes?

Mr. McLAUGHLIN. Well, our discretions are in the form of recommendations to the engineers. If we think something is going wrong, we call the attention of an engineer to it.

Mr. KELLEY. So that the operator practically, within this limitation which you have named, can place this order for repairs wherever he sees fit?

Mr. McLAUGHLIN. Yes, sir.

Mr. KELLEY. And at whatever price he sees fit?

Mr. McLAUGHLIN. No; the prices are subject to the rates that are filed with the Shipping Board. That is, I am talking of time and material work, that is, work on the day's basis; I do not mean contract, competitive bid, or anything like that. Of course, that is an open field, competitive bidding.

Mr. KELLEY. Well, for the ordinary repairs.

Mr. McLAUGHLIN. Yes; the small repairs.

Mr. KELLEY. How could you get a standard by which the element of discretion would not enter for ordinary repairs on a ship?

Mr. McLAUGHLIN. Discretion as to what?

Mr. KELLEY. Well, putting in a wire, electric wiring, or anything of that kind.

Mr. McLAUGHLIN. As to who would do that work?

Mr. KELLEY. Yes; or the sort of material you put in, the grade, and all that; who would determine that? Suppose you had to put in a new chandelier somewhere, a new globe, who would decide how expensive a one to put in?

Mr. McLAUGHLIN. Well, betterments have always in all cases to be taken up with the Shipping Board engineers, betterments. That would be a betterment.

Mr. KELLEY. Suppose one thing is broken and another thing has got to go in; would that be a repair or a betterment?

Mr. McLAUGHLIN. That is a repair.

Mr. KELLEY. And you might put in a better one than is broken?

Mr. McLAUGHLIN. Oh, yes.

Mr. KELLEY. There is a wide latitude; you understand what I mean, don't you, by discretion?

Mr. McLAUGHLIN. I understand what you mean.

Mr. KELLEY. Who exercises that?

Mr. McLAUGHLIN. Well, under the present arrangement the superintending engineer of the operator makes his application to the Bureau of Survey, and the Bureau of Survey engineer decides as to whether it is necessary or not.

Mr. KELLEY. Is there anybody, either in your office or in the engineer's division, if that is the right way to express that, that inquires into whether or not the operator who puts out a repair job may have any financial interest in the concern making the repair?

Mr. McLAUGHLIN. I did not quite get that question; that is, what his latitude is.

Mr. KELLEY. I want to know whether or not there is any discretion in the engineer or anywhere else to inquire into the question as to whether or not the operator has any interest in the firm making the repairs, financial interest?

Mr. McLAUGHLIN. That discretion lies with Commander Gatewood, head of the Construction and Repair Department.

Mr. KELLEY. Well, does he have authority to say?

Mr. McLAUGHLIN. I should say so; I assume he has.

Mr. KELLEY. You do not know about that, do you?

Mr. McLAUGHLIN. No; because he is in the operating end of it and construction end of it and repair end of it, and, of course, we are only auditors; but he has the authority of placing a concern on the approved list or removing it, and I should say that he——

Mr. KELLEY. Well, he would not remove it simply because an operator held some stock in it, would he?

Mr. McLAUGHLIN. I do not know; that would be discretionary with him.

Mr. KELLEY. Would you think, as a practical business man, that it would be important for the Government to know whether the operator had any financial interest in the firm that was getting the repairs?

Mr. McLAUGHLIN. I should think it would; yes.

Mr. KELLEY. It would make a big difference, would it not?

Mr. McLAUGHLIN. I should think so, in my private opinion; yes.

Mr. KELLEY. Especially if the Government is paying all these bills?

Mr. McLAUGHLIN. No matter who was paying the bills.

Mr. KELLEY. Well, if the operator was paying them himself it probably would not make so much difference; but the Government pays all the bills for repairs?

Mr. McLAUGHLIN. Yes.

Mr. KELLEY. Under its contract with these operators?

Mr. McLAUGHLIN. Yes.

Mr. KELLEY. In so far as you are concerned, in the auditing, at least, you never inquire as to whether or not the operator is financially interested in the repair yard?

Mr. McLAUGHLIN. No, sir; that is the policy outside of audit.

Mr. KELLEY. Do you know whether or not operators are, as a rule, interested in repair yards?

Mr. McLAUGHLIN. No; I do not know that.

Mr. KELLEY. Is it not quite a common thing for an operator of any size, to have his own yard?

Mr. McLAUGHLIN. I only know of one case; that is the yard I have been in, that is the Barber Steamship Co., that have a repair yard, the Pier Machine Co., in Brooklyn, and I have heard it mentioned that the Munson Steamship Co., I think, maintain a yard of their own.

Mr. KELLEY. That would be almost a natural thing for a great operating company to do, would it not, if they do a lot of business?

Mr. McLAUGHLIN. If I were an operator I would.

Mr. KELLEY. Yes. So that a great concern like the Barber, it would be natural for them to be interested financially in the yards where their ships were being repaired?

Mr. McLAUGHLIN. Well, I do not know so much a financial interest as it is to get their ships moving, and have something at hand to handle the ships, facilitate the movement of the ships; in other words, so that there would not be any delay.

Mr. KELLEY. In order to do that they would have to be financially interested?

Mr. McLAUGHLIN. Yes.

Mr. KELLEY. And you do not know whether or not the Government specially inquires into the question?

Mr. McLAUGHLIN. No; that is a policy, I think, that would be handled by Commander Gatewood.

Mr. KELLEY. As to whether or not any particular yard was owned by the operator?

Mr. McLAUGHLIN. Yes.

Mr. KELLEY. Are you all up to date on your accounting—that is, as near as you would be expected to be under good accounting?

Mr. McLAUGHLIN. Well, yes; for a department of that size; yes.

Mr. KELLEY. How far back are you?

Mr. McLAUGHLIN. In the new work we are probably 1,400 bills behind—something like that.

Mr. KELLEY. How long will it take you to do that, to catch that up?

Mr. McLAUGHLIN. Well, of course, there is nothing that needs catching up.

Mr. KELLEY. That is to say, how soon after a bill is contracted, if it goes through ordinarily, can you pay it?

Mr. McLAUGHLIN. If it is a bill that we audited it probably would be four weeks, about four weeks to six weeks.

Mr. KELLEY. There are no old bills that are being held up because they have not been audited yet?

Mr. McLAUGHLIN. Well, we are just getting rid of some now, possibly nearly 200; they are repair bills that came in from the operators' voyage accounts. We are cleaning out the last batch of those now; they will be out within, probably, six or seven days.

Mr. KELLEY. You have seen a good deal in the papers around about commissions being paid for placing repairs?

Mr. McLAUGHLIN. Yes; I have heard it.

Mr. KELLEY. Do you know anything about that?

Mr. McLAUGHLIN. No, sir; I have never seen any concrete cases of that; just as you say, in the papers.

Mr. KELLEY. I think that is all I want to inquire about until you come back the next time.

The CHAIRMAN. We will suspend until 2.15.

(Whereupon, at 1.18 o'clock p. m., a recess was taken until 2.15 o'clock p. m.)

AFTER RECESS.

After the expiration of the recess the hearing was resumed at 2.15 o'clock p. m.

TESTIMONY OF MR. EDGAR F. LUCKENBACH.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Your name, sir?

Mr. LUCKENBACH. Edgar F. Luckenbach.

The CHAIRMAN. Where do you reside?

Mr. LUCKENBACH. At Sandy Point, Long Island.

The CHAIRMAN. What is your business?

Mr. LUCKENBACH. Just a minute. I would like to tell you where I was born. I was born in Kingston, N. Y.—made in the United States.

The CHAIRMAN. What is your business?

Mr. LUCKENBACH. Ship owning and ship operation.

The CHAIRMAN. Do you do any building of ships? Have you a shipyard?

Mr. LUCKENBACH. No; we have a repair plant in connection with our business.

The CHAIRMAN. How long have you been in that business?

Mr. LUCKENBACH. Thirty-five years.

The CHAIRMAN. Where do your ships operate? From what ports?

Mr. LUCKENBACH. New York, Philadelphia, and Baltimore.

The CHAIRMAN. Have you had ships during that time—of course you have had ships built for you?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. Are you operating any Shipping Board ships?

Mr. LUCKENBACH. Very few.

The CHAIRMAN. About how many?

Mr. LUCKENBACH. I think we have as many as six.

The CHAIRMAN. From what ports are they being operated?

Mr. LUCKENBACH. New York, Philadelphia, and San Francisco.

The CHAIRMAN. How many ships of your own are you operating?

Mr. LUCKENBACH. 16; about 180,000 tons probably.

The CHAIRMAN. Did you have some of your ships commandeered after the declaration of war, by the Shipping Board or by order of the President?

Mr. LUCKENBACH. We had them all commandeered. I furnished more tonnage during the war than any man in the United States.

The CHAIRMAN. How many ships were there taken over?

Mr. LUCKENBACH. 243,000 tons.

The CHAIRMAN. In how many ships?

Mr. LUCKENBACH. About 18.

The CHAIRMAN. Did you have some ships under construction which were requisitioned by the Shipping Board under Executive order after the declaration of war?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. By whom were they being constructed?

Mr. LUCKENBACH. By the Fore River Shipbuilding Co. and the Sun Shipbuilding Co.

The CHAIRMAN. What class of ships were they, Mr. Luckenbach?

Mr. LUCKENBACH. They ran from 10,000 tons to 15,000 tons, twin screw, from 13½ to 14 knots.

The CHAIRMAN. Cargo ships?

Mr. LUCKENBACH. All cargo ships.

The CHAIRMAN. Upon what routes are your own ships operating at the present time?

Mr. LUCKENBACH. New York to Rotterdam, New York to Hamburg, and New York to Los Angeles, San Francisco, and Seattle.

The CHAIRMAN. On what routes are the ships operating that you are operating for the Shipping Board?

Mr. LUCKENBACH. Philadelphia to Rotterdam, and Philadelphia to San Francisco.

The CHAIRMAN. Are you familiar with the agreement between the Emergency Fleet Corporation and operators with reference to repairs upon Shipping Board ships?

Mr. LUCKENBACH. No; I do not know what that is.

The CHAIRMAN. Do you know whether or not upon ships which are being repaired, belonging to the Shipping Board, overcharges are common?

Mr. LUCKENBACH. No; I do not know that.

The CHAIRMAN. Do you know anything about the matter of inspection of ships, either under construction for the Shipping Board or repairs being made to ships for the Shipping Board?

Mr. LUCKENBACH. We have had considerable experience with the result of the inefficient inspection.

The CHAIRMAN. What is the result, Mr. Luckenbach?

Mr. LUCKENBACH. Inefficient work—leaky rivets, leaky decks, poor workmanship.

The CHAIRMAN. Have you any ships in mind?

Mr. LUCKENBACH. I think some of the ships that we purchased from the Shipping Board.

The CHAIRMAN. You have purchased some ships, have you?

Mr. LUCKENBACH. More than anyone else in the United States.

The CHAIRMAN. How Many?

Mr. LUCKENBACH. \$22,000,000 worth.

The CHAIRMAN. How many ships, Mr. Luckenbach?

Mr. LUCKENBACH. Eight or nine, I think.

The CHAIRMAN. Can you state the terms of the agreement of sale, as to how much was required to be paid down? Ten per cent or 25 per cent?

Mr. LUCKENBACH. No; we never came in the favored class in any way with the "Slipping" Board, as we called it. We were always compelled to do things that other people were not compelled to do, and we never came in the 2½ per cent cash class, and we never came in the 10 per cent cash class. I think the lowest we have purchased was in the 25 per cent cash class.

The CHAIRMAN. How long ago were those purchases made?

Mr. LUCKENBACH (referring to memorandum). During the last two years; I do not seem to have the exact date here.

The CHAIRMAN. Now, on the ships which have been purchased from the Shipping Board, and which you say suffered from improper inspection or poor workmanship, have you been obliged, or has your company been obliged to make repairs?

Mr. LUCKENBACH. A large amount of repairs have been expended on these vessels.

The CHAIRMAN. And does your company have to bear that expense, or does the Shipping Board bear it?

Mr. LUCKENBACH. No; we bear that.

The CHAIRMAN. Will you state anything that you know with reference to poor riveting? What has been discovered and what repairs have been necessary?

Mr. LUCKENBACH. Why, we have had a large amount of rivets that we had to renew, owing to poor workmanship, on quite a few of the vessels that we have purchased.

The CHAIRMAN. Causing the vessels to leak?

Mr. LUCKENBACH. Yes; leaky rivets; and of course leaky rivets, if they were in the bottom, would necessitate dry docking, and that would run up the expense pretty high for demurrage on the ship and great delays.

The CHAIRMAN. Can you say how many ships of those you have purchased have had to be dry docked because of leaky rivets?

Mr. LUCKENBACH. I should say 50 per cent of them.

The CHAIRMAN. Fifty per cent of the ships?

Mr. LUCKENBACH. Of the ships.

The CHAIRMAN. Have you any knowledge of improper surveys having been made upon ships which have been required to be repaired?

Mr. LUCKENBACH. The improper surveys on our ships were the cause of all this expense that we have been put to, both in turbine work, boiler work, and ship construction. That was largely the result of improper inspection.

The CHAIRMAN. Is there a difference between an inspection while the work is going on and a survey on the vessel when the work is entirely completed?

Mr. LUCKENBACH. Oh, yes. The inspectors inspecting while the construction is going on can see the defects and have them remedied at very small cost, and that would improve the construction of the ship; whereas after the ship is completed the ship is painted, and it is pretty hard to discover until your rivets begin to leak or show signs of stress.

The CHAIRMAN. Have you any information with reference to the supplement of contracts arising from incomplete surveys?

Mr. LUCKENBACH. No; I do not know anything about that.

The CHAIRMAN. Do you know anything about the care and sale of impaired machinery or junk of the Shipping Board?

Mr. LUCKENBACH. No.

The CHAIRMAN. What agreement are you operating your ships under, do you know? Is it the M. O. No. 3, No. 1, or No. 2?

Mr. LUCKENBACH. We have been operating on every agreement that they have put out so far, and find objections to some and make suggestions, which I guess are consigned to the waste basket as usual—anything we have to say.

The CHAIRMAN. Did you purchase supplies and materials for the ships you are operating for the Shipping Company—your company?

Mr. LUCKENBACH. Yes. We have not any ship chandlery concern connected with us such as some of the other people have.

The CHAIRMAN. You have no subsidiary corporations for furnishing of ship supplies and food and fuel?

Mr. LUCKENBACH. No; we have not—or stevedore companies or wharfage companies or watchmen or anything like that. We are not in that business.

The CHAIRMAN. You use the same system in purchasing supplies for the operated ships of the Shipping Board that you do for your own vessels?

Mr. LUCKENBACH. Yes; we give them the benefit of our experience, and also our contracts. But that does not make any difference with the Shipping Board.

The CHAIRMAN. When you say that makes no difference with the Shipping Board, what do you mean by that?

Mr. LUCKENBACH. Efficiency does not count with the Shipping Board; it is the inefficient men they are looking for, not the efficient men.

The CHAIRMAN. Well, what do you mean? That it does not make any difference whether you buy supplies upon the same plan that you do for your own ships? You say it does not make any difference to the Shipping Board. Do you get your accounts through any quicker? Do you have any difficulty in adjusting accounts for your operated ships?

Mr. LUCKENBACH. No.

The CHAIRMAN. Have you rendered complete accounts for any voyages of your operated ships?

Mr. LUCKENBACH. Yes; they keep right after us.

The CHAIRMAN. And have you had any settlements with them on account of completed voyages?

Mr. LUCKENBACH. I think we are very near paid up, within a few thousand dollars, on every operation we have had. As I said before, we do not come in the favored class with the Shipping Board.

The CHAIRMAN. Has that been so ever since you have been operating ships?

Mr. LUCKENBACH. Ever since the "Shipping" Board was organized and we started to operate for them.

The CHAIRMAN. You have kept the accounts nearly current for your operated ships, have you?

Mr. LUCKENBACH. Just the same as we do our own.

The CHAIRMAN. And have had settlements with the Shipping Board?

Mr. LUCKENBACH. Yes. There is no reason for delayed accounts.

The CHAIRMAN. Have there been delayed accounts?

Mr. LUCKENBACH. Not with us.

The CHAIRMAN. Has money been advanced to your concern by the Shipping Board for the operation of ships allocated to you?

Mr. LUCKENBACH. I do not think so.

The CHAIRMAN. What have you done with the proceeds for freight carriage that you have received on these operated ships and distinguished from the ships of your own concern?

Mr. LUCKENBACH. We still have some money of the Shipping Board, on instructions from them to keep it.

The CHAIRMAN. How do you carry that in the bank?

Mr. LUCKENBACH. In the Shipping Board account.

The CHAIRMAN. As agent for the Shipping Board?

Mr. LUCKENBACH. As agent for the Shipping Board.

The CHAIRMAN. Have you made any settlement with the Shipping Board for that tonnage which was commandeered during the war?

Mr. LUCKENBACH. You mean charter hire?

The CHAIRMAN. No; your ships which they took over after the war was declared?

Mr. LUCKENBACH. Well, they paid us monthly, you know.

The CHAIRMAN. And those accounts are all settled?

Mr. LUCKENBACH. Oh, no. The Shipping Board owes me a good many million dollars.

The CHAIRMAN. On account of those ships?

Mr. LUCKENBACH. On account of some of those ships. I have a great many accounts with the Shipping Board.

The CHAIRMAN. Do you have difficulty in getting them adjusted?

Mr. LUCKENBACH. Great difficulty.

The CHAIRMAN. You also had some ships requisitioned, you stated, that were under construction by the Fore River and the Sun Shipbuilding Companies?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. Have those accounts been settled?

Mr. LUCKENBACH. No.

The CHAIRMAN. Are you having difficulty in adjusting them?

Mr. LUCKENBACH. Yes; we are trying to get the overcharges straightened out.

The CHAIRMAN. Will you state what the difficulty is with those particular claims? What are the overcharges that are causing controversy?

Mr. LUCKENBACH. In 1915 I started in to make contracts and build ships, thinking there might be a shortage of tonnage and that we would be able to develop a merchant marine—for which I have

worked for the past 25 years—in our own small way, and that we would get some routes of ships that had been torpedoed and lost. My friends at that time thought I was very foolish, but it has turned out so far successfully.

When the ships were commandeered in August, we were told to take our inspectors away and cease inspection. These ships, except two, were all contracted for on a lump-sum basis. Along in December of the same year, after they were commandeered, the Shipping Board told us that they had destroyed the original contracts, that they were a mere scrap of paper, and new ones had been entered into on a cost-plus basis. Some of these ships when they were commandeered were 80 and 90 per cent completed. and some of them did not have the keels laid.

On the ships that were completed the Shipping Board said, "You can have these ships, Luckenbach, provided you will pay the increased cost." "Well," I said, "what do you think that will be on the first ship?" "Why, that will be in the neighborhood of \$500,000." "What? For a ship 85 per cent completed?"

"Yes," the Shipping Board man said.

"Why," I said, "that is an impossibility. The only question that you have there, I should think, would be the question of labor. With an eight or nine hundred thousand dollar ship a five hundred thousand increase is simply ridiculous. I am from Missouri, and I want you to show me."

I have been waiting ever since to be shown. That was on the first ship. The overcharges or increased cost of the ships I purchased from the Shipping Board—

Mr. KELLEY. If these ships have names, will you mention them by name, if you have the information there?

Mr. LUCKENBACH. Yes. [Referring to memorandum.] We have had an excess cost of hulls 264, 265, and 267, as developed by the Perley Morse audit, of \$186,558.53.

The CHAIRMAN. Mr. Luckenbach, were these the ships that were being constructed for you?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. And later you purchased them?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. Very well, sir. I just wanted to get it clear.

Mr. LUCKENBACH. Excess cost of hulls 297 and 298, as developed by the Perley Morse audit, \$739,000.

Error in set-up price by United States Shipping Board, as total cost of hulls 297 and 298, \$790,000.

Overestimate between original contract price with builders and amount paid the United States Shipping Board: Steamer *K. I. Luckenbach*, \$523,000; steamer *F. J. Luckenbach*, \$373,000; steamer *Katrina Luckenbach*, \$425,000; steamer *Walter Luckenbach*, \$260,000; making overcharges and overestimates on the price of the ships of \$3,792,216.

The CHAIRMAN. That is in excess of the original contract for their construction, is it?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. How much per ton was your contract for the construction of those ships?

Mr. LUCKENBACH. They ran from \$80 to \$140.

The CHAIRMAN. Of course, the price per ton increased very materially during the war?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. Have you the various elements which entered into the overcharges, the increase in material and the increase in labor or any changes in plans or specifications, or other things that would make it more expensive to build the same ship that you contracted for in 1915?

Mr. LUCKENBACH. That is what I have been trying to get for the last two years. I have not got it yet.

The CHAIRMAN. You have not got it yet?

Mr. LUCKENBACH. No; but they have got my money. These figures I have given you are the result of an audit which I had the privilege of making when I purchased the ships, and my audit shows this difference.

The CHAIRMAN. What did you audit? What have you audited?

Mr. LUCKENBACH. The ships that I purchased.

The CHAIRMAN. Yes; but I mean the accounts of the Shipping Board or the accounts of the builders?

Mr. LUCKENBACH. The accounts of the builders.

The CHAIRMAN. Now, if you audited the accounts of the builders, what did you compare them with in order to say that there was this amount of overcharge or excess?

Mr. LUCKENBACH. Why, I compared that with the original lump-sum figure for the construction of the ships.

The CHAIRMAN. The contract which you made?

Mr. LUCKENBACH. Yes. So I asked Mr. Cuthell, the attorney for the Shipping Board—I said, “Now, for the moment, just forget I am one of these terrible American ship owners; I am just one of the common ordinary people. Why do you destroy the original contract, which is so advantageous to the Government, and make a new contract when some of these ships are 85 per cent completed?”

He said, “Because we need the shipbuilder.”

I said, “How about your Uncle Dudley that made these contracts 12 or 14 months ago and financed the proposition? The shipbuilder did not do that. I did it. What do I get?”

He said, “You get left.”

“Thank you, very much.”

The CHAIRMAN. Who was it that told you that?

Mr. LUCKENBACH. Mr. Cuthell, of the Shipping Board.

The CHAIRMAN. What position did he hold?

Mr. LUCKENBACH. He was the attorney for the Shipping Board.

The CHAIRMAN. Did you expect, even though your ships were 60, 70, 80, or 90 per cent complete at that time, that after they had been completed by the Shipping Board and you came to purchase them you would be able to secure them at the original contract price?

Mr. LUCKENBACH. No.

The CHAIRMAN. So you did think some excess over the original contract price was necessary?

Mr. LUCKENBACH. Yes; under that new agreement that they made with the shipbuilder.

The CHAIRMAN. You have never been able, as I understand you, to ascertain the items that come in in the completion of these ships, to

make up this sum of money in overcharges or overestimates or extra costs? Is that true?

Mr. LUCKENBACH. Yes—from the Shipping Board. I got this [indicating memorandum] from my audit.

The CHAIRMAN. Now, you say “overcharge on hulls number so and so.” What was the nature of those overcharges, from your audit?

Mr. LUCKENBACH. Why, the way I remember the thing is that everything was charged to construction account. The shipbuilding company had no expenses whatsoever. For instance \$1,000 to the baseball club——

The CHAIRMAN. To what?

Mr. LUCKENBACH. The baseball club.

The CHAIRMAN. \$1,000 to a baseball club?

Mr. LUCKENBACH. Which I never saw play. I had to pay a part of that expense. I enjoy baseball, and I would have liked to see the team play that I subscribed to.

The CHAIRMAN. Will you just explain what you mean by \$1,000 to a baseball club? What do you mean—that you were asked to pay a thousand dollars to a baseball club?

Mr. LUCKENBACH. I paid my proportion of \$1,000 to the baseball club of the Fore River Shipbuilding Co.

The CHAIRMAN. And that was figured in the cost of constructing your ship?

Mr. LUCKENBACH. That is in the construction account.

The CHAIRMAN. Anything else?

Mr. LUCKENBACH. \$1,000 to the Neighborhood Society.

The CHAIRMAN. Was that charged in the construction cost of your ship?

Mr. LUCKENBACH. Yes. Advertising Liberty bonds—I do not remember the amount. \$1,000 to the band.

The CHAIRMAN. Those two items were charged in the construction cost of your ship?

Mr. LUCKENBACH. Yes. Reorganization of—when they amalgamated the subsidiaries with the Bethlehem Steel Co., the legal expenses of this organization or amalgamation——

The CHAIRMAN. They were charged in?

Mr. LUCKENBACH. I paid some of that. There was an oil engine, which I have read in the papers of late had been very successful. I paid for the experiments on that engine, I found at that time, although they had been experimenting with it for some years past. That was also in my construction account.

I paid the club dues of various members of the Fore River Shipbuilding Co.—construction account. I paid the house charges of the officials—in construction. I paid the moving expenses of some of the officials from Fall River to Bethlehem—in construction account. I learned a whole lot about bookkeeping that I never knew before.

The CHAIRMAN. Do I understand that these charges were just confined to your contract for ships there, or were those charges generally distributed over the entire work which they were doing under contract as a part of their overhead or maintenance account?

Mr. LUCKENBACH. It was distributed over all vessels.

The CHAIRMAN. How many vessels were they constructing there at that time, do you know?

Mr. LUCKENBACH. No; I do not know.

The CHAIRMAN. Then how could you tell what proportion of that was this \$1,000 for the band?

Mr. LUCKENBACH. My accountants have investigated that thing, and I have given you the full report. I think they have a full report. Mr. Morse, the accountant, will give you all that information.

The CHAIRMAN. Mr. Morse made the audit, and you are not familiar with the details thereof?

Mr. LUCKENBACH. No, sir.

The CHAIRMAN. How do you purchase supplies for the ships of your company, Mr. Luckenbach?

Mr. LUCKENBACH. Through our purchasing department.

The CHAIRMAN. Can you state whether you have them go out and buy wherever they please, for a round-trip voyage or a part of a voyage or wherever they can and that they go out and purchase any quantity or whether they go out and purchase in quantities to take care of the entire fleet?

Mr. LUCKENBACH. We stock these ships up for the round-trip voyage.

The CHAIRMAN. You have a purchasing agent, do you?

Mr. LUCKENBACH. Yes; and he figures out so many men need so much food, that the trip will take about so long, and he supplies that vessel accordingly. There are times when they are away from port—home port—that they will have to buy some fresh provisions, but that does not amount to very much.

The CHAIRMAN. Do you know anything about the practice prevailing in shipping circles as to the Shipping Board boats purchasing at retail prices rather than at wholesale prices?

Mr. LUCKENBACH. Only what I have heard on the street. We had a ship turned over to us for operation this past week. Just to give you an example of some people that are operating ships, according to what the captain said, he put in a requisition for a number of boxes of fresh fruit, such as Casaba melons, which we do not furnish our men; and boxes of pears and grapefruit and oranges. I think there was some 14 boxes of fresh fruit on the requisition. So our port captain looked at this requisition and asked him if he was in the habit of doing that with his former operator, and he said, "We do." He said, the port captain did, "Well, we do not operate our ships that way. You will have to take subsistence on our scale of feeding." "Well," he said, "then my steward will leave." He said, "Did your steward make this list out?" The captain of the ship said "Yes." The port captain said, "Your steward will be fired in one hour for making out a list like that." The captain of the ship said, "Well, I do not know what I will do." The port captain said, "Well, then, you will be fired if you do not know better than this." The captain of the ship said, "My former operators allowed the ship to go out this way." The port captain replied, "You can not operate ships for us under those conditions."

The CHAIRMAN. There is a difference in operation as to the furnishing of supplies.

Mr. LUCKENBACH. Some difference.

The CHAIRMAN. And it makes a difference in the cost of operating the ships.

Mr. LUCKENBACH. It certainly does.

The CHAIRMAN. Do you know of any other instance of incompetent stewards?

Mr. LUCKENBACH. Yes; we have had quite a few, but I do not remember them just now.

The CHAIRMAN. What, if you know, Mr. Luckenbach, is the practice with reference to the ships you are operating for the Shipping Board as to checking or invoicing the supplies which your steward or engineer or captain orders delivered to that particular ship? Do you have a check made of it, or an invoice, or an inventory, or do you know as to that?

Mr. LUCKENBACH. No; that would come under the operating department. I do not know.

The CHAIRMAN. What do you know as to the payment of commissions or the making of gifts, of gratuities, to officers of ships or agents of the Shipping Board for repairs or for material or work furnished or labor done on allocated ships?

Mr. LUCKENBACH. I know that there has been a great deal of talk about graft on Shipping Board ships.

The CHAIRMAN. Do you know whether on your privately operated ships the engineers, masters, and stewards get commissions from dealers for goods purchased?

Mr. LUCKENBACH. They do not have any opportunity. The purchasing department or the operating department takes care of that. Captains and engineers have nothing to do with the purchasing of anything that goes on the ship with us.

The CHAIRMAN. And do you know whether your purchasing department pays such commissions or make such gifts?

Mr. LUCKENBACH. They would receive it, possibly, but I hope not.

The CHAIRMAN. I mean, do they receive them?

Mr. LUCKENBACH. Well, as to that I hope not.

The CHAIRMAN. You have not heard of that?

Mr. LUCKENBACH. I have not.

The CHAIRMAN. If you had, would you keep such a purchasing agent?

Mr. LUCKENBACH. I would not.

The CHAIRMAN. Do you believe that is proper practice for Government owned and operated ships?

Mr. LUCKENBACH. It is not the proper practice.

The CHAIRMAN. We have had testimony, Mr. Luckenbach, from various witnesses, to the effect that that practice has long prevailed in shipping circles, and that it is a sort of general custom that prevails, and particularly I think the testimony has been, in the port of New York. You have been in business some 25 or 30 years, and I would like to ask you if your experience has been such that you are able to say that that has been a long-established custom and practice, of dealers who furnish materials and supplies and make repairs to ships—paying the masters, captains, engineers, or stewards commissions or making gifts to them.

Mr. LUCKENBACH. It is not the practice with us.

The CHAIRMAN. It has not prevailed with your company?

Mr. LUCKENBACH. Not at all.

The CHAIRMAN. Do you know of excess profits having resulted in the furnishing of galley supplies to Government ships?

Mr. LUCKENBACH. No; I do not.

The CHAIRMAN. Do you know of short deliveries?

Mr. LUCKENBACH. No; but that could happen very easily.

The CHAIRMAN. Under the system?

Mr. LUCKENBACH. Under the inexperienced operator or inefficient operator.

The CHAIRMAN. Do you know whether there have been excess overstocking of ships and things of that kind?

Mr. LUCKENBACH. Not to my own knowledge.

The CHAIRMAN. Would you say as to the Shipping Board, having allocated a large number of ships, particularly at this port, where I believe there are some 80 operators, that it would be practical for the Shipping Board to have a purchasing agent, with the proper clerical force and qualified assistants, to supervise the purchase of supplies for the ships being operated by those 80 operators here?

Mr. LUCKENBACH. That would be a good idea if you have lost confidence in the old established lines that have been operating for years. No matter how many inspectors you had for some of those operators it would not do any good.

The CHAIRMAN. That is what I was leading up to, Mr. Luckenbach. Are there operators who have been allocated ships and are operating same out of the port of New York, who are inexperienced and not responsible?

Mr. LUCKENBACH. Well, as to their responsibility, I do not know anything about that. In regard to inefficiency and inexperience, over 50 per cent of the different operators out of New York come under that class.

The CHAIRMAN. Have you had difficulty in securing ships, or do you know of any instances of favoritism being shown in the allocation of ships for operation?

Mr. LUCKENBACH. Well, we have made application time and time again for ships for operation, but we did not get any. We have as many as six ships, I think now, regardless of the fact that we have purchased more tonnage than anyone else in the United States from the Shipping Board; regardless of the fact that we furnished more tonnage, too, in the war, we have as many as six ships to operate to-day, and we have not had any routes allocated to us to cover. Inexperienced and inefficient operators, who have not purchased a row boat from the Shipping Board, seem to be the favored ones in allocation. For instance, I can give you a concrete example: We built ships for the Australian trade, and wanted to run an American steamship line from the Atlantic coast to Australia. In allocating ships, the Shipping Board allocated them to Mr. Welding Ring's concern, the United States-Australia-Asia Steamship Co., which owned an interest in a foreign steamer.

Mr. Welding Ring has always opposed everything American. And after watching the allocations for some time, and finding that the foreign element would receive the favors, I made a trip to Washington and asked permission of the Shipping Board to put my ships under a foreign flag, so that when I arrived there I would be received as the foreign shipping agent was received. I was discouraged and sick and tired of running anything under the American flag when foreigners like Clegg and Kerr, two British subjects, could get the favors from the Shipping Board.

The CHAIRMAN. What did you tell them when you asked them that?

Mr. LUCKENBACH. They refused my request to change my flag, and we have very few allocations in comparison with others. Take the two Englishmen, take Mr. Welding Ring's company, take the Cosmopolitan Steamship Co., take Struthers & Dixon, and they do not own a rivet in anything. Possibly we do not know how to run ships, but history does not speak that way. This business was established 65 years ago by my father and we have been successful. Even when Mr. Franklin's company went into the hands of receivers we were making money.

The CHAIRMAN. When was that?

Mr. LUCKENBACH. Some seven or eight years ago.

The CHAIRMAN. Have you had tonnage allocated to you and then had it taken from you by the Shipping Board and allocated to some other concern?

Mr. LUCKENBACH. Why, we had an instance of one of these ships that we contracted for and had paid money on account of the construction of it, that had been commandeered and completed by the Shipping Board, which was turned over to Mr. Welding Ring's company to operate—a man who owned an interest in a foreign ship and nothing American, and has purchased nothing from the Shipping Board since. At that time we made so much fuss about it that the Shipping Board finally allocated the ship to the Navy to operate.

The CHAIRMAN. Do you or your company own any interest in foreign ships?

Mr. LUCKENBACH. No; and never did. We do not represent any foreign interests, and there is no foreign capital in the company. It is a family affair.

The CHAIRMAN. It is a family affair and a United States of America concern?

Mr. LUCKENBACH. Yes, sir; 100 per cent.

The CHAIRMAN. Do you know of instances where there have been losses to result because of interlocking contracts between the operator and other concerns?

Mr. LUCKENBACH. No; they would not come under my vision.

The CHAIRMAN. Then those contracts for your ships which were made with the Fore River and the Sun Shipbuilding companies, were they lump-sum contracts?

Mr. LUCKENBACH. Yes, sir.

The CHAIRMAN. When the Shipping Board took over the ships and the ships were completed by them, were they completed under a lump-sum agreement or cost plus or fixed fee, or what?

Mr. LUCKENBACH. They evidently ran along on the lump-sum basis until December of the year that they were requisitioned, and that was the first time I had a line that the original lump-sum contracts had been destroyed and new percentage contracts had been made.

The CHAIRMAN. Did you see the terms of the percentage contracts?

Mr. LUCKENBACH. Yes; when I purchased the ships.

The CHAIRMAN. What were the terms?

Mr. LUCKENBACH. Well, I do not remember just now.

The CHAIRMAN. How much had you paid toward the completion of the ships?

Mr. LUCKENBACH. The payments on the ships ran along on a construction basis; a certain sum when the keel was laid, a certain sum when the material was in the yard; and I think in all there were about 10 payments on each ship. And as the construction proceeded, the payments were made. What percentage the payments were I do not recall.

The CHAIRMAN. Can you tell how much you paid the Fore River Shipbuilding Co. at the time the Government requisitioned the ships?

Mr. LUCKENBACH. I do not believe I have a memorandum of that here. (After looking over some papers.) No; I have not that memorandum here. But I have a memorandum here of profiteering by the Shipping Board with our ships.

The CHAIRMAN. What does that refer to?

Mr. LUCKENBACH. Where they commandeered our tonnage and paid us the Shipping Board rate, which is less than half they paid the foreigner—regardless of what Mr. Gillen testified to yesterday that the American shipowner had been so wonderfully favored. We had the steamer *Harry Luckenbach*, for which we received a charter hire of \$44,387, and yet we made a profit for the Shipping Board of \$356,500 with my property. The steamer *Pleiades*, for which we received a charter hire of \$377,781; and we made a profit of \$1,159,024 for the Government.

The CHAIRMAN. Was that during the war?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. Do you complain of that?

Mr. LUCKENBACH. I do not think the Government treated any other industry as it treated the shipowners, by taking their product and profiteering with it.

The CHAIRMAN. How did they make this profit?

Mr. LUCKENBACH. By having us operate the ships for them.

The CHAIRMAN. Do you mean to say that they received that amount of money?

Mr. LUCKENBACH. Yes. We made this profit for them, and this is what they paid.

The CHAIRMAN. In doing what?

Mr. LUCKENBACH. Operating the ships for them.

The CHAIRMAN. What were they doing with the ships during the war?

Mr. LUCKENBACH. Making money with them.

The CHAIRMAN. Carrying what?

Mr. LUCKENBACH. Merchandise.

The CHAIRMAN. Where?

Mr. LUCKENBACH. To the Far East, to South America, and to Europe.

The CHAIRMAN. Do you feel that you should have been permitted to have operated those ships and made that money?

Mr. LUCKENBACH. I think they should have given me the same privilege that they gave the two Englishmen, Clegg and Kerr.

The CHAIRMAN. What privilege did they give them?

Mr. LUCKENBACH. They gave them free trips to operate.

The CHAIRMAN. Were they American ships?

Mr. LUCKENBACH. Yes; when they operated them.

The CHAIRMAN. Do you mean to say that they were American ships that were not commandeered?

Mr. LUCKENBACH. They were given free trips. I do not know whether they were commandeered or not.

The CHAIRMAN. What do you mean by "free trips?"

Mr. LUCKENBACH. Free of Government regulation. They could go out into the market and carry anything anywhere at any price.

The CHAIRMAN. Was that done by the Shipping Board?

Mr. LUCKENBACH. It was.

The CHAIRMAN. How do you know?

Mr. LUCKENBACH. Simply by what I read in the papers.

The CHAIRMAN. How much did they make, if you know?

Mr. LUCKENBACH. I can only guess at it, and think it was worth about \$10,000,000.

The CHAIRMAN. You think if the Government requisitioned your ships during the war, commandeered them on the high seas, and operated them, that it should have operated them at simply the cost to the Government in taking over the ships and not have made any profit?

Mr. LUCKENBACH. I do. There wasn't any other—

The CHAIRMAN (interposing). Do not you believe that was a legitimate thing for the Government to do, to help pay the expenses of the Shipping Board?

Mr. LUCKENBACH. No; I do not.

The CHAIRMAN. Do you think that the Shipping Board should have permitted ships that were afloat during the war to have gone along and operated without any governmental regulation or supervision?

Mr. LUCKENBACH. No; I do not. But I do think this, that the Shipping Board should not take my ships and profiteer with them. That was illegal as far as I was concerned. It was illegal for the Government to do it with them, I think.

The CHAIRMAN. If they had lost one of your ships during that operation you were insured, were you not?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. And during its operation it was protected by the convoys of fleets of the Navy or of these other nations associated with us.

Mr. LUCKENBACH. Not at that time.

The CHAIRMAN. When was it?

Mr. LUCKENBACH. The first part of the war.

The CHAIRMAN. That was during the first part of the war?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. In 1917?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. There was no protection to those ships at that time, do you mean to say?

Mr. LUCKENBACH. Very little. We had one ship that went to the Far East.

The CHAIRMAN. Where did she go?

Mr. LUCKENBACH. I think to China and Japan.

The CHAIRMAN. If, as a matter of fact, it cost the Government much more than it actually took in in cargo receipts for the pro-

tection afforded those ships operated by the Shipping Board, you wouldn't call that profiteering, would you?

Mr. LUCKENBACH. I turned over a profit of \$1,769,000 to them.

That was no loan; that was a profit.

The CHAIRMAN. Do you take into consideration the cost of convoys and other things, cost of insurance, which the Government carried itself upon those ships, and other expenses, in figuring out whether that is a profit or not, including naval protection?

Mr. LUCKENBACH. No; I have no means of figuring that.

The CHAIRMAN. Then, if those are to be charged off against that—or, do you think that it is proper for those items to be charged off against it?

Mr. LUCKENBACH. I do not know that those ships had convoys.

The CHAIRMAN. Assuming that they did, don't you say it was proper to be charged off against that profit?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. Have you had any other controversies, Mr. Luckenbach, with the Shipping Board?

Mr. LUCKENBACH. We have had numerous controversies with the Shipping Board, and have them to-day.

The CHAIRMAN. Will you state what the first controversy was that you had with the Shipping Board, who you had it with, and who the members of the board were at that time?

Mr. LUCKENBACH. How is that?

The CHAIRMAN. Now, give us the first difference or controversy that you had with the Shipping Board, who you had it with, and what it was about, and who comprised the board at the time.

Mr. LUCKENBACH. The first disagreeable controversy we had was in regard to the increased cost of ships.

The CHAIRMAN. The ships that you were having built?

Mr. LUCKENBACH. The ships that we purchased from the Shipping Board and that we were building at the time that they were requisitioned.

The CHAIRMAN. All right. When was that, or about when?

Mr. LUCKENBACH. That was in December of the year they were requisitioned.

The CHAIRMAN. December, 1917?

Mr. LUCKENBACH. Yes, 1917.

The CHAIRMAN. Do you mean that you purchased them in December, 1917?

Mr. LUCKENBACH. We purchased some of them before that, if I remember aright.

The CHAIRMAN. I thought the Shipping Board requisitioned everything that was under construction.

Mr. LUCKENBACH. They did.

The CHAIRMAN. And that they did not dispose of it until after the armistice?

Mr. LUCKENBACH. Oh, no. They sold us ships and then we in turn chartered them to the Government, just the same as they took our ships that were afloat.

The CHAIRMAN. Who did you have the controversy with—with what official or bureau?

Mr. LUCKENBACH. With Mr. Cuthell, attorney for the board.

The CHAIRMAN. Did anybody else participate in the controversy?

Mr. LUCKENBACH. No; the most of my conversation was with him.

The CHAIRMAN. And was it over a legal question?

Mr. LUCKENBACH. It was a question of increased cost of these ships. He did not give the man that made the turbine, for instance, any increased cost over and above the original contract; he did not give the boiler man anything over and above the original contract. It was only the shipbuilder. In this case I have in mind the turbine man was not the shipbuilder, the boiler man that made the boilers was not the shipbuilder. Those contracts were made on a lump-sum basis, and they had to stand. The contracts that we had in force, that they commandeered, on other auxiliaries, for lump sum amounts, had to stand.

The CHAIRMAN. Did he give you any reason why the increase was granted to the shipbuilder?

Mr. LUCKENBACH. They needed him, he said.

The CHAIRMAN. They what?

Mr. LUCKENBACH. They needed him.

The CHAIRMAN. They needed the shipbuilder, do you mean?

Mr. LUCKENBACH. Yes; that is what he said.

The CHAIRMAN. What shipbuilder was it?

Mr. LUCKENBACH. The Fore River Shipbuilding Co.

The CHAIRMAN. Do you know whether or not that is a subsidiary of the Bethlehem Shipbuilding Co.?

Mr. LUCKENBACH. I believe so.

The CHAIRMAN. Well, do you think that the mere increase to the Fore River Shipbuilding Co. on two hulls that they were constructing for you would make any difference as to their building ships for the Government?

Mr. LUCKENBACH. I had more than two hulls under construction.

The CHAIRMAN. At Fore River?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. Well, how many hulls did you have? Did you have six? In other words, did he state in what way this increase of cost on your ships being allowed to the shipbuilder was going to help the Shipping Board, or how it would succeed in getting the services of that concern by allowing this increase of cost?

Mr. LUCKENBACH. No; he did not.

The CHAIRMAN. He simply said he needed them.

Mr. LUCKENBACH. That he needed the shipbuilder.

The CHAIRMAN. Because they did need the shipbuilder it was necessary for him to run up the cost on your ships?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. And the boiler maker, and the engine maker and the material men had to comply with their contracts which had been made, at the original figure?

Mr. LUCKENBACH. That is right.

The CHAIRMAN. Did anybody else in the Shipping Board tell you that, or did you just get that information from the attorney for the Shipping Board and turn around and come home, or did you see any commissioner?

Mr. LUCKENBACH. I saw Admiral Bowles.

The CHAIRMAN. What did he tell you?

Mr. LUCKENBACH. He confirmed everything that Mr. Cuthell did. He turned me right back to Mr. Cuthell; said that he had charge of it.

The CHAIRMAN. Did you see any other member of the board?

Mr. LUCKENBACH. No.

The CHAIRMAN. What do you know as to foreign fuel and bunkering facilities for Government ships operated by private operators?

Mr. LUCKENBACH. I know that they had a great deal of difficulty getting fuel.

The CHAIRMAN. Do privately-operated ships have that difficulty?

Mr. LUCKENBACH. No.

The CHAIRMAN. How about wharfage and terminal facilities for Government-operated ships?

Mr. LUCKENBACH. Where?

The CHAIRMAN. Here in New York?

Mr. LUCKENBACH. I do not exactly see what you mean. Do you mean, do they have any difficulty here?

The CHAIRMAN. Yes.

Mr. LUCKENBACH. Not that I know of.

The CHAIRMAN. Do you know whether there have been any increases in dock charges recently here?

Mr. LUCKENBACH. I think the dock charges have dropped some recently, but previously they were very high.

The CHAIRMAN. Do you or your concern own any piers in this vicinity?

Mr. LUCKENBACH. No.

The CHAIRMAN. Do you lease any?

Mr. LUCKENBACH. We lease some.

The CHAIRMAN. Did you sublet them?

Mr. LUCKENBACH. Yes; we sublet.

The CHAIRMAN. To the Government?

Mr. LUCKENBACH. We have had some Shipping Board ships at our piers.

The CHAIRMAN. Did you sublet them to the city of New York.

Mr. LUCKENBACH. No; we sublet from the city of New York, or we leased from the city.

The CHAIRMAN. You lease from the city of New York?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. And then you permit Shipping Board ships and others to tie up there?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. Did you raise the rates?

Mr. LUCKENBACH. No; our rate is established by the dock department at $3\frac{1}{2}$ cents per ton.

The CHAIRMAN. Oh, the rate is uniform throughout the water front here?

Mr. LUCKENBACH. Oh, no; only on our pier.

The CHAIRMAN. Why is that?

Mr. LUCKENBACH. Because I had a row with the city administration.

The CHAIRMAN. A controversy with the powers-that-be here in the city?

Mr. LUCKENBACH. Right. My pier is operated at a loss, I might add.

The CHAIRMAN. Did you take over the lease of the pier that was held by the city of New York, of the Hamburg-American Line docks here, or in Brooklyn?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. You still have them?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. You have them now?

Mr. LUCKENBACH. Yes; and pay about eight times more than the German line paid for them, and for flying the American flag.

The CHAIRMAN. Is your rental on that fixed by the city authorities?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. Did you also have a ship being built in Seattle, Mr. Luckenbach?

Mr. LUCKENBACH. Yes; we built one there.

The CHAIRMAN. Was it the *Walter Luckenbach*?

Mr. LUCKENBACH. Right.

The CHAIRMAN. What yard was that being built in?

Mr. LUCKENBACH. I think it was the Seattle Construction Co.

The CHAIRMAN. The Seattle Dry Dock and Construction Co.?

Mr. LUCKENBACH. Yes; I think that was the name.

The CHAIRMAN. Was that completed?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. Under the original contract?

Mr. LUCKENBACH. No; I think there was a slight increase there.

The CHAIRMAN. Was it taken over by the Shipping Board?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. Before completion?

Mr. LUCKENBACH. Oh, yes; while under construction, and it was completed by the Shipping Board.

The CHAIRMAN. Did you have any overcharges or overestimates or contributions to baseball clubs or other similar items that you spoke of, on that ship?

Mr. LUCKENBACH. I did not.

The CHAIRMAN. Have you settled that with the Shipping Board?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. With Mr. Cuthell?

Mr. LUCKENBACH. No; I do not think I dealt with him on that transaction.

The CHAIRMAN. Was that after his connection with the Shipping Board?

Mr. LUCKENBACH. I think he was transferred from the department that I first met him in.

The CHAIRMAN. You settled for the *Walter Luckenbach* with the Shipping Board satisfactorily to yourself?

Mr. LUCKENBACH. Yes, sir.

The CHAIRMAN. At a slight increase, however, in cost?

Mr. LUCKENBACH. Yes, sir.

The CHAIRMAN. Which you felt was reasonable and justified?

Mr. LUCKENBACH. I did.

The CHAIRMAN. And if there had been a similar increase in cost for the other hulls, built on this coast, you would have been glad to have adjusted the mater on the same basis?

Mr. LUCKENBACH. I certainly would.

The CHAIRMAN. Other than those items which you have indicated as being charged to overhead or organization, or whatever you called it, those various items you mentioned awhile ago, welfare items and athletic items, and moving, and the statement Mr. Cuthell made that they needed a shipbuilder, do you know of any reason why that matter should not have been adjusted by the Shipping Board long ago?

Mr. LUCKENBACH. No.

The CHAIRMAN. And it still remains to be settled?

Mr. LUCKENBACH. It still remains to be settled.

The CHAIRMAN. Have you talked with any other officer or member of the board down there about it?

Mr. LUCKENBACH. We have been requesting a statement in regard to these overcharges for a good many months, and last April they promised to give us the items that made up the increase in cost, and we are still waiting for it.

The CHAIRMAN. Who made that promise?

Mr. LUCKENBACH. The accounting department.

The CHAIRMAN. Do you remember whether it was Mr. Tweedale?

Mr. LUCKENBACH. No; I do not think it was. I do not think he was there.

The CHAIRMAN. Was it Mr. Abadie?

Mr. LUCKENBACH. No; I do not recall the name of the man.

The CHAIRMAN. Or was it Mr. Adamson?

Mr. LUCKENBACH. I do not recall the name.

The CHAIRMAN. I did not know but what I might refresh your recollection. Have you been to see Admiral Benson about this?

Mr. LUCKENBACH. No.

The CHAIRMAN. Did you ever talk with Mr. Payne about it?

Mr. LUCKENBACH. No.

The CHAIRMAN. Did you ever talk with his assistant, Mr. Gillen, about it?

Mr. LUCKENBACH. No.

The CHAIRMAN. Did you ever talk with Mr. Hurley about it?

Mr. LUCKENBACH. Oh, yes.

The CHAIRMAN. You talked with Mr. Hurley?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. What was the nature of the conversation with Mr. Hurley? He was chairman of the board at the time, was he not?

Mr. LUCKENBACH. Yes; and he would forward me right back again, saying he was too busy with other things.

The CHAIRMAN. Whom would he send you to?

Mr. LUCKENBACH. To some landlubber attorney.

The CHAIRMAN. And that is all the talk you had with Mr. Hurley amounted to?

Mr. LUCKENBACH. That is all.

The CHAIRMAN. Did you ever talk with Mr. Piez?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. What did he say?

Mr. LUCKENBACH. That I should see Mr. Cuthell. Each one passed the buck.

The CHAIRMAN. Did you ever talk with Col. Goethals?

Mr. LUCKENBACH. No.

The CHAIRMAN. Did you ever talk with Mr. Colby when he was on the board, Mr. Bainbridge Colby, at present Secretary of State, about this transaction?

Mr. LUCKENBACH. I think I had a talk with Mr. Colby one day in regard to this.

The CHAIRMAN. What did he say?

Mr. LUCKENBACH. He referred me right back to the same man, some attorney.

The CHAIRMAN. Did you ever talk with Admiral Capps?

Mr. LUCKENBACH. No.

The CHAIRMAN. Did you ever talk with Mr. Denman?

Mr. LUCKENBACH. Not about this. This was after Mr. Denman's time.

The CHAIRMAN. This was after Mr. Denman's time?

Mr. LUCKENBACH. Yes, sir.

The CHAIRMAN. You have recently given out an interview——

Mr. LUCKENBACH. I have given out many.

The CHAIRMAN. I say, you have recently given out an interview which was published in the Nautical Gazette, expressing some criticisms of the Shipping Board and its policy, have you not?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. You state that it is your belief that "Admiral Benson is sincere in everything he says and does, but he is surrounded with the same old personalities and the same influence which existed under the previous administrations of the Board." Now; do you mean to say that the heads of the various branches of the Shipping Board are the same as when Mr. Goethals and Mr. Denman were on the Board, or when Mr. Hurley was chairman of it.

Mr. LUCKENBACH. Oh, no; the same influences.

The CHAIRMAN. And you say "he is surrounded with the same old personalities and the same influence which existed under the previous administrations of the Board."

Mr. LUCKENBACH. Well, there have been a great many changes during the existence of the Shipping Board.

The CHAIRMAN. You state that the Luckenbach Company has abandoned the idea of renewing its service to Australia; the Shipping Board has made that impossible.

Mr. LUCKENBACH. They put us out of the Australian business.

The CHAIRMAN. How?

Mr. LUCKENBACH. By allocating to Mr. Welding Ring's Company, that does not own anything in the American ship line, 17 allocations to one for our company. They made a monkey of us, after we had spent a great many thousand dollars to establish an Australian service.

The CHAIRMAN. They gave you one steamer and give them 17?

Mr. LUCKENBACH. They gave us one vessel.

The CHAIRMAN. One vessel.

Mr. LUCKENBACH. Yes. At that time we did not get all steamers to operate; we had steamers and sailing vessels to operate, and they

gave our competitor 17 sailing to our one, and put us out of the Australian business. They can make of break anyone they take a fancy to.

The CHAIRMAN. Do you charge that there is any corruption in that respect, Mr. Luckenbach?

Mr. LUCKENBACH. No, I do not charge that; I do not know that.

The CHAIRMAN. Do you think that the favoritism is the result of influence or something else?

Mr. LUCKENBACH. A large amount of it is owing to influence.

The CHAIRMAN. Do you charge that it is done with an intention to injure the future of the merchant marine of America?

Mr. LUCKENBACH. Judging from the actions of the Shipping Board toward existing, old established, I should say, steamship companies, they have thrown every obstacle they could in the way of development of an American merchant marine by old established concerns.

I will give you an instance. We went in the Rotterdam service, and the Shipping Board is operating several Rotterdam services. I went and complained, and they said, "Well, why didn't you go in this business before?" I said, "The reason I did not go in this business before was I did not have the suitable ships. I am the last man to get my ships back from the Shipping Board; in fact to-day they still have three of my ships that have not been returned to me. I did not have the proper ships to put in there. When I did get the proper ships I put them in there. Now," I said, "I have purchased tonnage from you, and my principal opposition is the man that sold me the tonnage, and the Board that was created to foster me and encourage me and help me in every way, and instead of doing that you run in opposition to me, and I am here to ask you that wherever an American steamship company, a reliable steamship company, will furnish enough tonnage to cover any one port, I want you to withdraw your opposition and assist that company, and let him charter your vessels whenever he needs any additional tonnage." They said, "Oh, no, we can not do that; we are established in the Rotterdam service." "Well," I said, "how long have you been established?" "Why, we have been established three months." "Well," I said, "that is a very long time to be established."

They still continue their opposition to Rotterdam and have increased it by adding other operators. To-day you have this farce facing you: Shipping Board operators underbidding each other for the trade to Rotterdam—a fine state of affairs! There is almost too much tonnage on the berth for the service to-day, but you do not find that any of the allocations to the favored operators have been taken away from them. Each ship they operate to-day is losing money, and they still continue.

The CHAIRMAN. Are you the only one of the old established operators that is discriminated against?

Mr. LUCKENBACH. No.

The CHAIRMAN. Are you the only one of the old established operators that has any controversy still pending with the Shipping Board?

Mr. LUCKENBACH. Oh, no.

The CHAIRMAN. What other concerns, to your knowledge, have been discriminated against in the allocation of ships, of the old established operators?

Mr. LUCKENBACH. I think that they have all been discriminated against.

The CHAIRMAN. All of the old established operators?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. Mr. Luckenbach, do you believe that it is for the best interests of the merchant marine of the United States for us to have the Shipping Board operating ships for the Government, with Uncle Sam paying the bills?

Mr. LUCKENBACH. I do not. There is only one way that I think the Shipping Board should operate ships, and that is to charter them out, get their monthly pay in advance the same as I would do, the same as you would do if you were in the business; not allocate ships to Tom, Dick, and Harry to operate on a commission basis; and then he should be guided by the conference. The conference is composed of experienced men, as a usual thing; we now have some of the incompetent in the conference, who always object to everything constructive, and they have more influence with the board than the shipowner has.

The CHAIRMAN. Do you mean a spare boat charter?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. You think that would be better for the upbuilding of the merchant marine?

Mr. LUCKENBACH. I certainly do.

The CHAIRMAN. You say the trail of favoritism which has been crossed again and again by those who, like ourselves, have honestly endeavored to serve the best interests of American shipping is plain in Washington. It leads into the front door of the Shipping Board offices, but it has devious turnings before it gets there. The merest tyros in the shipping business are still camping on the job at Washington and enjoying the favor of the board. They maintain sumptuous apartments there, they ride around the capital in their limousines, and they keep their entertainers to show Shipping Board employees a good time. These people have been the loudest in their complaints when any constructive criticisms have been made to the board. They have been too busy chasing around the country to inform themselves of our real marine needs.

Have you got any facts upon which you base that statement?

Mr. LUCKENBACH. Simply the hearsay in the trade; that is all.

The CHAIRMAN. Well, that is rather a serious indictment to make against a great Government department upon hearsay or rumor, is it not, Mr. Luckenbach?

Mr. LUCKENBACH. Well, I would not want to say that; no.

The CHAIRMAN. You would admit that you are a prejudiced critic, would you not?

Mr. LUCKENBACH. No; I do not think so.

The CHAIRMAN. The result of your experience with the board has created no bias or prejudice in your mind?

Mr. LUCKENBACH. No; I am perfectly liberal with them.

The CHAIRMAN. When you were asked, "What is the remedy for these conditions?" you said, "A complete new deal in Washington." You meant in the Shipping Board?

Mr. LUCKENBACH. In the Shipping Board.

The CHAIRMAN. "Eliminate the persons on the pay roll of the board who are there to hold jobs instead of to serve the best interests

of the whole country." You believe that there are important officials of the board down there who are holding their positions with that object solely in view, rather than to serve the best interests of their country?

Mr. LUCKENBACH. No; you only have two there now.

The CHAIRMAN. You are referring to the personnel of the board, is that who you mean?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. Commissioner Donald and Admiral Benson?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. And do you think that they are there simply to hold their jobs rather than——

Mr. LUCKENBACH. Oh, no; I think they are fine men.

The CHAIRMAN. Well, to whom were you referring on the 23d of October last when you made this statement?

Mr. LUCKENBACH. In regard to the new deal?

The CHAIRMAN. In regard to eliminating the persons on the pay roll of the board who were there to hold their jobs rather than to serve the best interests of the country.

Mr. LUCKENBACH. Why, I do not recall any names just at present, but they were not doing very much.

The CHAIRMAN. In the Shipping Board?

Mr. LUCKENBACH. In the Shipping Board.

The CHAIRMAN. That is rather a customary complaint with Government departments in general, is it not, Mr. Luckenbach?

Mr. LUCKENBACH. I have heard so.

The CHAIRMAN. Well, have you ever had, prior to the inauguration of the Shipping Board, any experiences in the shipping business operating your ships, or controversies with officials of the United States, which have resulted in your not having a good record among shipping circles that you know of?

Mr. LUCKENBACH. No. I have always fought for the American flag, for the past 25 years, against a great many men that went to the Shipping Board advocating—for instance, we were fighting to carry the supplies to the Panama Canal—and some of these men that have received large allocations I find advising the Shipping Board to-day, opposed the carrying of supplies to the Panama Canal in American ships, opposed the extension of coastwise laws as to the Philippines, and opposed about everything that was ever introduced to promote an American merchant marine; they are some of the people that have received large allocations of ships to operate for the Shipping Board.

The CHAIRMAN. Would you say that there is nothing in your career as a steamship man, or in the experience of your concern during its 25 or even the 65 years, which might be the basis of proper discrimination on the part of the Shipping Board?

Mr. LUCKENBACH. I certainly do. Our record is clean.

The CHAIRMAN. Did you enter any objection to the use of your ships for transporting troops or supplies during the war?

Mr. LUCKENBACH. No.

The CHAIRMAN. Or returning them after the war?

Mr. LUCKENBACH. No.

The CHAIRMAN. Did you attempt in any way to interfere with the operation of any of your ships by the Shipping Board during the war—when they were receiving these profits, as you say?

Mr. LUCKENBACH. No; we assisted them.

The CHAIRMAN. On the contrary, you assisted them?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. And cooperated with them?

Mr. LUCKENBACH. We did.

The CHAIRMAN. You operated your own ships under Government supervision?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. And turned over the profits. Now, there was nothing in that operation so far as you know, or so far as you have ever been told by the Shipping Board, which may be the basis of any discrimination or protracted delay in settling up with you?

Mr. LUCKENBACH. None at all. I think we were the most successful operators the Shipping Board has ever had.

The CHAIRMAN. Do you recall having any controversy or trouble over the S. S. *Eddington* at Buenos Aires?

Mr. LUCKENBACH. No.

The CHAIRMAN. Did you operate a steamer by that name?

Mr. LUCKENBACH. Yes; we had a Shipping Board ship by that name.

The CHAIRMAN. Have you now?

Mr. LUCKENBACH. I don't think so.

The CHAIRMAN. You do not recall any controversy, you say, over repairs or dry-docking or anything of that sort?

Mr. LUCKENBACH. No.

The CHAIRMAN. Have you presented your claim to the Shipping Board for adjustment for the purchase of these hulls which were constructed under a contract which you made with the Sun Shipbuilding and the Bethlehem Shipbuilding concerns; prior to our entry into the war?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. Have you presented your claim?

Mr. LUCKENBACH. Oh, months ago.

The CHAIRMAN. What is the sum of that claim; what is the total amount?

Mr. LUCKENBACH. The difference in construction price, you mean?

The CHAIRMAN. No; I mean what do you claim is the proper figure?

Mr. LUCKENBACH. Yes; in construction, you mean?

The CHAIRMAN. Yes, sir.

Mr. LUCKENBACH. About \$3,400,000.

The CHAIRMAN. That is a proper construction cost?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. That is your claim—that is your figure?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. \$3,400,000.

Mr. LUCKENBACH. Yes.

Mr. KELLEY. I beg your pardon, Mr. Chairman; is that the amount that you claim is due for the construction of these ships or the difference? Is this your claim against the Government?

Mr. LUCKENBACH. This is the claim against the Government.

The CHAIRMAN. What is the Government's figure for that?

Mr. LUCKENBACH. It is the difference between the Government's figure and our figure.

The CHAIRMAN. I understand; that is the difference between your claim and the Government's claim.

Mr. LUCKENBACH. That is the difference between what these ships ought to cost and what the Government has charged us.

The CHAIRMAN. That sum, \$3,400,000, represents the difference?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. Well, now, between what is the difference; is it the difference between \$597,000,000 and \$600,400,000, or what are the two sums between which it is the difference, Mr. Luckenbach?

Mr. LUCKENBACH. I have not got that with me. I can simply say it is the difference between those two.

The CHAIRMAN. And that controversy has been pending ever since Mr. Cuthell was attorney for the Shipping Board?

Mr. LUCKENBACH. Yes.

The CHAIRMAN. And you have never been able to get any figures from the Shipping Board since?

Mr. LUCKENBACH. No.

The CHAIRMAN. And although you were promised by somebody in the accounting department last April that you would get figures, they have never been furnished you?

Mr. LUCKENBACH. They have never been furnished me; that is right.

The CHAIRMAN. And these items of contributions to baseball clubs and social welfare and all these others were secured by an audit of the books of the shipbuilder, which you paid for and were permitted to make by the construction company, is that it?

Mr. LUCKENBACH. Yes; at a cost of \$30,000.

The CHAIRMAN. It cost you \$30,000?

Mr. LUCKENBACH. Yes, sir.

The CHAIRMAN. Have you ever been permitted to audit the books of the Shipping Board?

Mr. LUCKENBACH. No.

The CHAIRMAN. Have you ever asked?

Mr. LUCKENBACH. I do not think I want that privilege.

The CHAIRMAN. I think that is all. Are there any questions, Mr. Kelley.

Mr. KELLEY. Just one or two, Mr. Luckenbach, if you please. With reference to this ship, the *Walter Luckenbach*, as I understand you, that ship was nearly completed when it was taken over?

Mr. LUCKENBACH. She was not nearly as completed as the other in the Bethlehem yard.

Mr. KELLEY. Do you remember how nearly completed the *Walter Luckenbach* was?

Mr. LUCKENBACH. I should think about 50 per cent.

Mr. KELLEY. Do you remember the contract price that you had on that ship?

Mr. LUCKENBACH. No; but I have the estimate here of the increased cost.

Mr. KELLEY. How much is that, Mr. Luckenbach?

Mr. LUCKENBACH. \$260,000.

Mr. KELLEY. That would indicate that it was very nearly completed, would it not?

Mr. LUCKENBACH. No, no.

Mr. KELLEY. What was the tonnage?

Mr. LUCKENBACH. About 12,000 tons.

Mr. KELLEY. That would mean approximately about what contract price, as you were doing business in those days?

Mr. LUCKENBACH. I think she ran along about \$130 a ton.

Mr. KELLEY. Well, that would be about a million and a half?

Mr. LUCKENBACH. Yes.

Mr. KELLEY. As the contract price?

Mr. LUCKENBACH. Yes; in that neighborhood, I should think.

Mr. KELLEY. Well, now, with an increased cost of only a couple of hundred thousand dollars it would seem as though that would indicate that it was very nearly finished.

Mr. LUCKENBACH. No; I do not think she was over 50 per cent when requisitioned, commandeered.

Mr. KELLEY. In the case of the one being built at Fore River, that was how large a ship?

Mr. LUCKENBACH. They were all about the same size.

Mr. KELLEY. And how nearly completed was that one?

Mr. LUCKENBACH. Why, one of them was 85 per cent.

Mr. KELLEY. And what was the excess charge there?

Mr. LUCKENBACH. \$523,000.

Mr. KELLEY. And that is what you can not understand, is it not, Mr. Luckenbach?

Mr. LUCKENBACH. That is what I can not get through my white head.

Mr. KELLEY. How one ship, only 50 per cent completed, would require only \$200,000 in excess costs, while the other, 85 per cent completed, with all of its machinery in, probably, took \$500,000 more to complete?

Mr. LUCKENBACH. Yes; it was about \$500,000, the way I remember it.

Mr. KELLEY. In the case of the *Walter Luckenbach*, did the Government change your contract to a cost-plus arrangement?

Mr. LUCKENBACH. No.

Mr. KELLEY. On what basis did it finish up that ship out there?

Mr. LUCKENBACH. The original basis, with some increase in labor and a few extras, but the ship was not completed on a cost-plus basis.

Mr. KELLEY. They held to your original contract?

Mr. LUCKENBACH. They did.

Mr. KELLEY. And only made the increases, taking it up from the point where the Government took it over?

Mr. LUCKENBACH. Yes; and I was willing to pay for any increased cost.

Mr. KELLEY. Do you know whether or not the Seattle Construction & Dry Dock Co. would have lost money on this ship if they had finished it under your contract?

Mr. LUCKENBACH. No; I do not know that; but they did say about the Fore River ships, that they were struck with the original contract.

Mr. KELLEY. Well, the Government took over this plant at Seattle entirely, did it not?

Mr. LUCKENBACH. I did not know.

Mr. KELLEY. It took over the plant of the Seattle Construction Co. outright, did it not?

Mr. LUCKENBACH. I did not know. It was Todd's company; Todd was the man that was at the head of it.

Mr. KELLEY. Well, that property eventually passed to the Government in some form.

Mr. LUCKENBACH. No; I did not think so. I may have the name wrong.

Mr. KELLEY. No; I think not. The Seattle Construction & Dry Dock Co.—the Government finally closed that plant down, and turned the property over to another firm adjoining it. Were you out there at all, to see about this property?

Mr. LUCKENBACH. No; I have never seen the place.

Mr. KELLEY. And you do not know whether the Seattle Construction Co. was in failing circumstances?

Mr. LUCKENBACH. No; I do not.

Mr. KELLEY. As a result of some of these contracts which they had on their ways?

Mr. LUCKENBACH. No; I did not know that.

Mr. KELLEY. Whether yours was one of them or not?

Mr. LUCKENBACH. I could not tell you that.

Mr. KELLEY. When was your ship, the *Walter Luckenbach*, completed?

Mr. LUCKENBACH. I can give you the date of the contract, but I have no memorandum here of when she was completed. The contract was February 9, 1916. You did not ask me anything about reconditioning the ships that Uncle Sam used and abused.

Mr. KELLEY. Just a minute, we will see if we can not finish up about this matter

Mr. LUCKENBACH. Oh, I thought you were through.

Mr. KELLEY. No; not quite. In the case of the Bethlehem contract, what was the date that you placed that contract?

Mr. LUCKENBACH. December 4, 1915, and December 4, 1916; there were two of them on that date.

Mr. KELLEY. Was that contract changed?

Mr. LUCKENBACH. Yes.

Mr. KELLEY. So that the Government paid its cost from the beginning?

Mr. LUCKENBACH. Well, that is what I am trying to find out—how they made up this amount. I have not found it out yet.

Mr. KELLEY. I thought you were permitted to audit the books of the company?

Mr. LUCKENBACH. Oh, yes; but I mean from the Shipping Board.

Mr. KELLEY. Could you not tell from auditing the books of the Fore River Co.—

Mr. LUCKENBACH. Yes.

Mr. KELLEY. How much the Government had paid for this ship?

Mr. LUCKENBACH. I think that the increased cost went right back to the beginning.

Mr. KELLEY. That is what I want to know. Did it?

Mr. LUCKENBACH. I think so.

Mr. KELLEY. Did your auditor find, from the examination of the books of the Fore River Co., that although this contract was 85 per cent completed when the Government took it, nevertheless, in settling with the Fore River Co. the Government allowed them the cost of that ship from the beginning?

Mr. LUCKENBACH. Yes.

Mr. KELLEY. How much would that save the Fore River Ship building Co.?

Mr. LUCKENBACH. I do not know that. They claimed, one day, that they were stuck—this was previous to the commandeering order—that they were stuck \$150,000 to \$200,000 a ship.

Mr. KELLEY. The Fore River people were stuck \$200,000 on the basis of the original contract?

Mr. LUCKENBACH. Yes.

Mr. KELLEY. And the Government took that off their hands, you say?

Mr. LUCKENBACH. Yes.

Mr. KELLEY. And allowed them the cost of the ship, plus a profit of 10 per cent or whatever it was fixed at?

Mr. LUCKENBACH. Yes.

Mr. KELLEY. On the entire cost of construction?

Mr. LUCKENBACH. On the entire cost.

Mr. KELLEY. And in your judgment that is what makes the \$500,000 extra cost?

Mr. LUCKENBACH. That makes the \$500,000.

(At this point the committee took a short recess.)

STATEMENT OF MR. WILLIAM H. DENMAN.

Mr. DENMAN. Mr. Chairman, if I may interrupt you for a moment during the course of this examination; this is Mr. William Denman, I was the first chairman of the Shipping Board.

I am in New York for a few days. I understand that it is the intention of the committee to call various chairmen and members of the board during the course of this investigation. I want to offer such information as you may desire to have from me, and ask you, if it is the intention of the committee to examine us or examine me at any time, that if it is within your power of accommodation to your program, you ask me while I am in New York here on this trip. My home is in San Francisco, and my practice and my business is between there and Oregon, and it is rather difficult for me to leave and come on here.

The CHAIRMAN. Mr. Denman, I would like to state that the committee hopes to examine all the former officials of the Shipping Board, including the members of the board, but at this stage of our inquiry we do not feel that we are prepared or ready to undertake that examination. It was our expectation that we would hear the members of the board in Washington, very likely immediately following the Christmas and New Year recess of Congress. While we would like to accommodate you in every way possible, I do not feel that our program is so arranged at present that we could undertake to examine you along the lines that we might later determine to inquire about.

I appreciate that you are on the Pacific coast and that it would be a very long and tedious journey, but I do not believe that we are in possession of much information which we feel we ought to have before we undertake to interrogate the higher officials of the board. I understand you expect to leave town this evening?

Mr. DENMAN. I expect to leave this evening or to-morrow, but I will be on the coast here for a period of two or three weeks, and it was during that period that I hoped you would be able to find time to examine me. Of course, I have been in investigation work of this kind myself, and I understand how necessary it is to build up your program and make your combination as it is built up.

The CHAIRMAN. If you will tell us when you expect to go back to the Pacific coast, we are going to be here for three weeks and it is possible that we might temporarily suspend and give a day or two to inquiring of you, so as to save you the necessity of a special trip across the country. But we could not do it in the immediate future, I am quite sure. If you could give us any idea of when you intend to go west we would try and accommodate you.

Mr. DENMAN. I will be here until the 1st of December, and will be between the Biltmore and the Shoreham Hotel in Washington up to that time.

The CHAIRMAN. Until December 1. Well, you see, that is about 10 days.

Mr. DENMAN. Is it that close? I had not realized it was that close.

Mr. KELLEY. Quite close; this is practically the 20th.

Mr. DENMAN. I feel, Mr. Chairman, the actual accomplishments of the board in the way of shipbuilding arose out of policies that we initiated very largely.

The CHAIRMAN. Yes, sir.

Mr. DENMAN. We did not get into the building of many ships in the brief time that I was there. It may be that in laying your foundation, an outline of those policies, what we started to do, may be of some help to you as a preliminary opening for the other investigations you intend to make. There has been a great misapprehension as to that. Many things have been misunderstood, and of course we are anxious to present those facts.

The CHAIRMAN. And the committee is, of course, anxious to have them. I can only say this, that if it is possible we will endeavor to hear you before December 1st.

Mr. DENMAN. Thank you, sir.

TESTIMONY OF EDGAR F. LUCKENBACH—Resumed.

The CHAIRMAN. I believe you have some further questions of Mr. Luckenbach, Mr. Kelley?

Mr. KELLEY. Has your experience with the Shipping Board, Mr. Luckenbach, been uniform from the beginning, as to discrimination against you, do you think?

Mr. LUCKENBACH. From the very beginning of the allocation system. My first complaint was when we had the Dutch ships here, and they allocated to Funch, Edye & Co., owned by the Cunard Steamship Co., some of the Dutch ships to operate, when Americans stood here to do the business. The Cunard Steamship Co. is thoroughly British.

Mr. KELLEY. Has your investigation of the situation, in an attempt to satisfy yourself perhaps as to why you were discriminated against, enabled you to locate the exact trouble?

Mr. LUCKENBACH. No; and I have tried hard.

Mr. KELLEY. You have intimated that it was a desire on the part of somebody to favor foreign shipping?

Mr. LUCKENBACH. Yes. The Shipping Board was full of foreigners.

Mr. KELLEY. You mean the members of the board?

Mr. LUCKENBACH. No, no; I mean the men located at 45 Broadway, operating.

Mr. KELLEY. Just whom have you in mind now? We might as well be as plain as we can about this, Mr. Luckenbach.

Mr. LUCKENBACH. Mr. Clegg, for instance, a British subject; Mr. Sharp, his assistant, a British subject.

Mr. KELLEY. What positions did they hold with the Shipping Board?

Mr. LUCKENBACH. They were in the operating division.

Mr. KELLEY. And they had to do with determining who should have ships, did they?

Mr. LUCKENBACH. No; they were operating ships.

Mr. KELLEY. They were operating ships?

Mr. LUCKENBACH. They were not in the allocation division.

Mr. KELLEY. They were the Government's representatives in the division of operations?

Mr. LUCKENBACH. Yes.

Mr. KELLEY. In this port?

Mr. LUCKENBACH. Yes. Then we had Mr. Love, who was with Furniss Withy. I think Mr. Love is an American.

Mr. KELLEY. But is he connected in some way with foreign ship-owners?

Mr. LUCKENBACH. Yes.

Mr. KELLEY. What nation?

Mr. LUCKENBACH. British.

Mr. KELLEY. All right, go ahead, Mr. Luckenbach. Who else?

Mr. LUCKENBACH. I do not recall the names of the other men.

Mr. KELLEY. Your complaint is more against men who might possibly be interested in foreign shipping connected with the board at the port of New York than at headquarters in Washington or Philadelphia?

Mr. LUCKENBACH. My complaint is both at New York and Washington.

Mr. KELLEY. Do you know of any; have you in mind some particular officials in Washington, who by interest would possibly be inclined to favor a foreign flag?

Mr. LUCKENBACH. No; I have not.

Mr. KELLEY. And in this article which you wrote, intimating or stating that the foreign interests were controlling, you had in mind particularly the port of New York?

Mr. LUCKENBACH. The port of New York.

Mr. KELLEY. Do you remember who were on the original allocating committee?

Mr. LUCKENBACH. No, I do not.

Mr. KELLEY. Was Mr. Franklin on that committee?

Mr. LUCKENBACH. No; he did not have anything to do with allocations, I do not think.

Mr. KELLEY. Was there not a committee called the ship control committee, upon which Mr. Franklin served?

Mr. LUCKENBACH. Yes; but I do not think they had anything to do with allocations.

Mr. KELLEY. What was the committee having control of the ships?

Mr. LUCKENBACH. I think it was operations.

Mr. KELLEY. That was after they were allocated?

Mr. LUCKENBACH. Yes.

Mr. KELLEY. Who would be directly responsible for the appointments, in operations, of an allocating committee, the head of the division of operations at Washington?

Mr. LUCKENBACH. Yes.

Mr. KELLEY. Now, Mr. Rossiter was at the head of the division of operations.

Mr. LUCKENBACH. Yes; but that was only a short time ago.

Mr. KELLEY. Then your troubles date farther back than that?

Mr. LUCKENBACH. Yes. Mr. Carey, I think, was the first man.

Mr. KELLEY. Under his administration do you think that there was favoritism in favor of the British?

Mr. LUCKENBACH. Yes; in favor of the British agents.

Mr. KELLEY. I understand.

Mr. LUCKENBACH. The men, as I have said before, that had always opposed every move to promote an American merchant marine, have been the ones that have been favored under those allocations.

Mr. KELLEY. Have you a theory that in some sort of an insidious way foreign shipowners have worked into a position of control here, with the hope or expectation of destroying or crippling the American ships and the business which they were to receive?

Mr. LUCKENBACH. I have that idea. You take men in New York to-day that are operating foreign ships, with the Shipping Board ships, and that should never be allowed. They should have an American organization and run American ships only, and not foreign ships in connection with American ships.

Mr. KELLEY. What companies that you have in mind are operating now both foreign and Shipping Board ships?

Mr. LUCKENBACH. The Kerr Steamship Co., Barber & Co. I would have to look at the advertisements, there are so many of them now.

Mr. KELLEY. Under this system which has been adopted by the Shipping Board, the commission basis, whereby all the expenses of repairs and maintenance, everything, is borne by the Government of the United States, that would lend itself very comfortably, would it not, Mr. Luckenbach, to your theory?

Mr. LUCKENBACH. It all dovetails together.

Mr. KELLEY. If there was a flat charter rate and they had to pay all the expenses of operating one of these ships it would make a great difference whether these ships were tied up at the docks?

Mr. LUCKENBACH. It would, that would eliminate——

Mr. KELLEY. Or whether they were spending a much larger sum for supplies than they should, or for repairs than they should.

Mr. LUCKENBACH. Instead of losing millions every week, as they are to-day, you would cut that down; you would make a profit instead of losing money.

Mr. KELLEY. If they had to pay for their crew and the expenses of the ship while it was tied at the dock it would make a difference about whether they should operate that ship or not?

Mr. LUCKENBACH. It certainly would. They would get these ships around much quicker, if they were paying on a per diem basis.

Mr. KELLEY. And with any operator who was trying to prejudice the American ship in favor of his British ship, or French ship, or whatever ship he might be operating, he would find this system which the Shipping Board has adopted just to his taste?

Mr. LUCKENBACH. Just what he wants. You will see instances of a British ship lying on one side of the dock and an American ship lying on the other side of the dock, both being operated by the same operator, and bound for practically the same ports.

Mr. KELLEY. Under your theory the British ship would get off much before the American ship?

Mr. LUCKENBACH. I think so.

Mr. KELLEY. And is that your observation, as well as your theory?

Mr. LUCKENBACH. No; I can not say it is. I have not checked that up.

Mr. KELLEY. Then this really is not, in your judgment, any hostility to you personally, but your theory is that the foreign influences have worked into the subordinate employees of the board?

Mr. LUCKENBACH. No; I think it is personal. That is just what I think it is, personal in my case.

Mr. KELLEY. I had an idea that you were putting the larger view ahead of the personal side.

Mr. LUCKENBACH. No; I do not.

Mr. KELLEY. That what certain people were trying to do was to destroy the American merchant marine?

Mr. LUCKENBACH. Yes.

Mr. KELLEY. And you were only an incident.

Mr. LUCKENBACH. I am only one of them.

Mr. KELLEY. Well, you are only an incident.

Mr. LUCKENBACH. A small toad in a big puddle.

Mr. KELLEY. It is not because they dislike you personally?

Mr. LUCKENBACH. No; I believe that they would love to destroy me and destroy the American merchant marine, too.

Mr. KELLEY. Well, you do not think that Admiral Benson would do that?

Mr. LUCKENBACH. No; I do not, not for a moment.

Mr. KELLEY. Do you think Mr. Hurley would?

Mr. LUCKENBACH. No; I do not.

Mr. KELLEY. Or Mr. Piez.

Mr. LUCKENBACH. No. No; it is the other men in the board, not the head men.

Mr. KELLEY. How about Capt. Foley?

Mr. LUCKENBACH. No; I do not think that he would. This is mostly done in the allocation division.

Mr. KELLEY. What you mean is, that the Government has made as agents for the operation of these ships, men whose foreign interests would outweigh the American interests and they would destroy American shipping if they could.

Mr. LUCKENBACH. Men who have been for years representing foreign owners, foreign interests, have fought everything American.

Mr. KELLEY. Well, now then, Mr. Luckenbach, those men could not get these ships unless somebody gave them to them.

Mr. LUCKENBACH. No; and you get right back to that allocation department, that is where they get the ships.

Mr. KELLEY. Is not Mr. Foley in charge of the allocation of the ships?

Mr. LUCKENBACH. No.

Mr. KELLEY. Mr. Foley is at the head of the division of operations of the ships. He has charge of all these Shipping Board ships?

Mr. LUCKENBACH. The allocation department or division and the operating division are two different divisions.

Mr. KELLEY. Do you know Mr. Tennant?

Mr. LUCKENBACH. No.

Mr. KELLEY. Is not the allocation section a part of the division of operations?

Mr. LUCKENBACH. I do not think so.

Mr. KELLEY. Do you know Mr. Eggers?

Mr. LUCKENBACH. No.

Mr. KELLEY. Do the other American ship men feel the same way about this that you do, Mr. Luckenbach, as far as your conversation with them goes?

Mr. LUCKENBACH. Yes.

Mr. KELLEY. And they have the same theory as to the cause?

Mr. LUCKENBACH. I never spoke to them on that line.

Mr. KELLEY. Do you know whether many of these operators that you speak of who have been getting ships in large numbers are also interested in repair plants, tugboat companies, stevedore companies, ship chandlery companies, dock companies, and general supplies?

Mr. LUCKENBACH. I have heard so.

Mr. KELLEY. Well, you know the shipping business in New York pretty well, Mr. Luckenbach? You know where the shipping money is, do you not?

Mr. LUCKENBACH. Yes, sir.

Mr. KELLEY. Well, what is your opinion about that?

Mr. LUCKENBACH. I think some of them are connected up with a great many subsidiary companies that work for the Shipping Board ships.

Mr. KELLEY. Have you had to repair any of the Shipping Board ships since you have operated them?

Mr. LUCKENBACH. A few.

Mr. KELLEY. Who surveyed the ships for repair?

Mr. LUCKENBACH. I do not know.

Mr. KELLEY. Well, you have a repair yard of your own?

Mr. LUCKENBACH. Yes; we have a repair plant.

Mr. KELLEY. And that is the only subsidiary of any of the kinds that I have named here that you do operate?

Mr. LUCKENBACH. Yes; and we have had that for 25 years.

Mr. KELLEY. And you treat these Shipping Board ships just the same as you do your own?

Mr. LUCKENBACH. Just the same as our own.

Mr. KELLEY. Now, while of course I am not saying that anybody would do it, under the practice that you are obliged to conform to with reference to repairs, owning the yard yourself and the Gov-

ernment paying for the repairs, would there be an opportunity of taking advantage of the Government through that door?

Mr. LUCKENBACH. It could be done.

Mr. KELLEY. The temptation would always be there to do it, wouldn't it?

Mr. LUCKENBACH. Yes.

Mr. KELLEY. And if a corporation had many of these other subsidiary companies also, not only repair companies but supply companies of all kinds, and-stevedore and tug companies——

Mr. LUCKENBACH. Yes. As an owner consigning ships in foreign ports, I would not consign my ship to a man that had everything there to get all the milk out of the cocoanut.

Mr. KELLEY. Because he could not act as your agent and deal with himself except to your disadvantage?

Mr. LUCKENBACH. That is the way I figure it.

Mr. KELLEY. And in every case where an operator has a subsidiary company with which he is obliged to deal as the agent of the Government, the temptation is always present to benefit his personal business to the disadvantage of the Government?

Mr. LUCKENBACH. Yes, sir; the temptation is there.

Mr. KELLEY. Now, speaking as a business man, is the contract which the Government enters into so drawn that it would protect you if you were in the place of the Government, to your satisfaction, against these conditions which I am talking about?

Mr. LUCKENBACH. No; it is not.

Mr. KELLEY. And in your judgment would any prudent business man make the kind of contract with ship operators for the handling of all the ships that the Government makes with operators?

Mr. LUCKENBACH. He would not.

Mr. KELLEY. Is that the general opinion, in your judgment, of the ship operators that you know?

Mr. LUCKENBACH. That is the opinion of the ship owner, not of the operator.

Mr. KELLEY. I understand—the ship owner, the man who has the property.

Mr. LUCKENBACH. The operators are in the majority, you know?

Mr. KELLEY. Yes, I understand that, because a large number of smaller operating concerns have come into existence lately?

Mr. LUCKENBACH. Yes; and if the Shipping Board goes on the way it is to-day, instead of having two failures, as you have had this week, you will have a great many failures every week.

Mr. KELLEY. Well, there is not much danger of these corporations failing that are operating Shipping Board ships, if they take advantage of all the opportunities, is there?

Mr. LUCKENBACH. You have had two failures this week of Shipping Board operators.

Mr. KELLEY. There is just one other thing, going back to what I think you held was profiteering on the part of the Government. I just want one observation about that from you. Your complaint was, as I recollect your statement, that other business men were not subject to the same general sort of treatment when the Government took their property over during the war?

Mr. LUCKENBACH. Yes; it was only the shipowner.

Mr. KELLEY. Of course, you got a certain rental for your ships during the war?

Mr. LUCKENBACH. Yes.

Mr. KELLEY. It was a fair rental, was it not?

Mr. LUCKENBACH. Less than half of what they paid the foreigner.

Mr. KELLEY. I know; but it was a fair rental?

Mr. LUCKENBACH. I do not think so.

Mr. KELLEY. A fair rental on the investment?

Mr. LUCKENBACH. No.

Mr. KELLEY. Wasn't it more than you had been making in ordinary times?

Mr. LUCKENBACH. In ordinary times, yes; but I did not pay \$225 a ton for a ship in ordinary times; I paid \$70 or \$60 for new ones.

Mr. KELLEY. But considering your investment—it was testified here yesterday by Mr. Gillen that you made on the average about 57 per cent on those contracts.

Mr. LUCKENBACH. I do not see how that could be. I think I came in the 70 per cent class of taxation.

Mr. KELLEY. If I remember his testimony correctly, he said you were allowed a charge upon your tonnage on the basis of \$175 a ton as though it were all new, without anything for depreciation whatever. Is that true?

Mr. LUCKENBACH. My position was a good deal different from a good many others. Most of my ships were new and cost high prices.

Mr. KELLEY. Then you would not stand quite the same as the average owner?

Mr. LUCKENBACH. No.

Mr. KELLEY. You would be above the average, which would pull it down somewhat, no doubt.

Mr. LUCKENBACH. You see, the majority of my tonnage was new.

Mr. KELLEY. Of course, by this arrangement the Government really took a part of your income?

Mr. LUCKENBACH. Yes; and then taxed me besides.

Mr. KELLEY. They did not tax you on this part?

Mr. LUCKENBACH. No.

Mr. KELLEY. Suppose they had allowed you to take this revenue, and then based the excess-profits tax on the three prewar years, they would have taken pretty nearly all of it away from you in taxes?

Mr. LUCKENBACH. Yes; but what they gave me I would have bought ships with.

Mr. KELLEY. You would not have bought ships with that part they had taken away from you in taxes?

Mr. LUCKENBACH. No; but the profit I had made.

Mr. KELLEY. So that really they increased your income one way and reduced it the other? That is to say, if they had not reduced it the way they did and allowed you to act as you say the Government acted, as a profiteer, they would have taken pretty nearly all of it away from you in the taxes at the end of the year. So how much worse are you off now than you would have been if they had done the same by you as they did by other business men?

Mr. LUCKENBACH. I would have about 30 per cent more to put into ships.

Mr. KELLEY. Do you think your excess-profits tax would not have eaten into you stronger than that?

Mr. LUCKENBACH. No.

Mr. KELLEY. Are you sure about that?

Mr. LUCKENBACH. No; I am only guessing about that.

Mr. KELLEY. I think you will feel a little bit easier in your mind, Mr. Luckenbach, if you will have some good lawyer figure out what you would have paid in taxes if you had profiteered, as you say the Government profiteered in ships, and you will find that you would have been just about as well off as you would have been the other way.

Now as to this free trip matter—of course, I come from the interior. We have some shipping in there on the Lakes, but I do not quite get this free trip matter that you were talking about. Certain companies, you said, were given free trips?

Mr. LUCKENBACH. Yes; the Kerr Steamship Co.

Mr. KELLEY. And I wondered why they were given free trips and what those were?

Mr. LUCKENBACH. I have wondered for three years why, and I am still wondering, and I can not get any information.

Mr. KELLEY. Well, you must have some theory.

Mr. LUCKENBACH. No; I think they were just favored sons; that is all.

Mr. KELLEY. Who were the parties who were favored? Perhaps we can find out from them why they were favored.

Mr. LUCKENBACH. The Kerr Steamship Co.

Mr. KELLEY. Anybody else?

Mr. LUCKENBACH. No—two British subjects, Kerrand Clegg, that afterwards got Roosevelt and Goethals to wave the American flags for them; still British subjects to-day, still operating Shipping Board ships.

Mr. KELLEY. What did you say about waving the American flag?

Mr. LUCKENBACH. I say they employed Gen. Goethals as their president to wave the American flag for them, and employed Roosevelt to wave the American flag for them, so as to camouflage and so everybody would think it was an American company.

Mr. KELLEY. What Roosevelt was this?

Mr. LUCKENBACH. Kermit.

Mr. KELLEY. The capital invested there is British capital, is it?

Mr. LUCKENBACH. That I do not know. There is a question where that money came from. They purchased Austrian ships and they put them under the American flag. The story goes this way, that there was another company that wanted to purchase the Austrian ships and made application. Their application was turned down.

Then along came the Kerr application to purchase the ships. A letter was written in the Shipping Board turning down the application of the Kerr company, and the next thing that happened the Kerr company was given permission. The three trips free—that is the way the story goes; how true it is I do not know—three free requisition trips, at a time when freights were the highest in the history of the world.

Mr. KELLEY. That is, they were allowed to go three times to the point of destination and return before they were taken over by the Government?

Mr. LUCKENBACH. Yes; that is the way I get the story.

Mr. KELLEY. At a time when freight rates were the highest they had been in the history of the country?

Mr. LUCKENBACH. And the Government hiring ships wherever they could get them.

Mr. KELLEY. Mr. Goethals was not connected with this company at that time?

Mr. LUCKENBACH. Oh, no.

Mr. KELLEY. Was he on the Shipping Board at that time?

Mr. LUCKENBACH. No; I do not think he was.

Mr. KELLEY. What year was that?

Mr. LUCKENBACH. Oh, I guess that was 1917. Why, don't you get Clegg and Kerr to come up here?

Mr. KELLEY. Well, this is the first I have heard about Kerr and Clegg, as far as I am concerned.

Mr. LUCKENBACH. Get them. They will give you some valuable information as to how this thing was worked.

Mr. KELLEY. I am trying to find out about when this was done. It must have been early in 1917?

Mr. LUCKENBACH. I think it was 1917. You know, their money is now being held up for the sale of the ships by the Government. It is a question of income tax.

Mr. KELLEY. The freight moneys?

Mr. LUCKENBACH. They sold their ships to the Harriman interests, and the profits, or the money they received from the sale, has been attached by the Government.

Mr. KELLEY. Under the income tax laws?

Mr. LUCKENBACH. Yes; that is what the papers said. That is all I know about it.

Mr. KELLEY. You spoke about some expenses for experimentation. I wish you would tell us all you know about that, Mr. Luckenbach.

Mr. LUCKENBACH. The Fore River Co. has been experimenting with a gas engine on the Diesel engine order for some time back, and the expense of the experimenting was charged in my construction account. Now, I have nothing to do with the experimenting on this engine; I never knew they had an engine there experimenting on it.

Mr. KELLEY. Such an engine, of course, was not used in any of your ships?

Mr. LUCKENBACH. No; and I am at a loss to understand why the Shipping Board paid these amounts that we have discovered have been paid, and I want my money back and I can not get it.

Mr. KELLEY. Do you know the name of the engine?

Mr. LUCKENBACH. I do not know the name of the engine.

Do you want to know of another great injustice done to the American ship owner?

Mr. KELLEY. Yes.

Mr. LUCKENBACH. Restoration claims. After the war was over and some of the ships were returned, the Government returned the ships to the owners but in the charter with the Government was a clause reading like this: "These ships will be returned to the owner in like good order and condition, ordinary wear and tear excepted."

Well, this is what they did. They would give you five days notice, and say, "There is your ship." "Well, I know, but this ship is dam-

aged to a large extent, and we will have to hold surveys, and we will have to get estimates, and we have not got the money to put this ship back."

"Well, that does not make any difference to us. You have to get the money somewhere if you want to put your ship back."

"Well, I know, but we don't have millions lying around just to put ships back in shape for war purposes after they have been used and abused."

"Well, we can not do anything for you."

We have so far paid out for the restoration of these ships—they will never get back where they were before, because they were chased by submarines and they were abused; they were ashore, and they had collisions, and they had all manner of trouble. They were run by incompetent men and everything was abused.

Here are some of the charges. Here is one for \$515,000; \$538,000—

Mr. KELLEY. These were charges for putting the ships back that you had to meet?

Mr. LUCKENBACH. Yes.

Mr. KELLEY. You put the ships in repairs yourself?

Mr. LUCKENBACH. I paid out this money, and I got one of the items back—\$672,000, \$739,000, \$676,000, \$575,000, and \$1,000,000. The total is \$4,817,000 that I had to pay out.

Now they say, "Well, we can not allow you any interest on this, Luckenbach, until your accounts are approved." Well, I have been months trying to get my accounts and my bills approved; we are getting along slowly. We had one approved, and we received the money for it, but I am still out over \$4,000,000.

Mr. KELLEY. It is just a question of interest, is it not?

Mr. LUCKENBACH. No; it is a question that I need the money and I want the money.

Mr. KELLEY. I know, but you do not anticipate any difficulty in the end in getting what you put into ships, and interest also?

Mr. LUCKENBACH. They say they won't pay interest.

Mr. KELLEY. You are inconvenienced at the present time because you need the money?

Mr. LUCKENBACH. They do not pay me any interest, and I want it settled. They said, "We don't pay any interest." "I know, but I have got to go out and borrow this money and pay 6 or 7 per cent." "That does not make any difference to us."

That is one of the other untrained things that they did that Mr. Gillen did not tell you about.

Mr. KELLEY. Well, that will come out of that 57 per cent.

Mr. LUCKENBACH. Well, that 57 per cent will have to go some.

The CHAIRMAN. This is restoration and reconditioning, is it?

Mr. LUCKENBACH. Reconditioning these ships as far as possible. We can never get them back where they were before.

The CHAIRMAN. Are there any other matters, Mr. Luckenbach, to which we have not directed your attention, of which you have knowledge?

Mr. LUCKENBACH. I would like to have you have my vice president—he attends to the operating end of this business—and he can tell you something about operations.

The CHAIRMAN. Who is he?

Mr. LUCKENBACH. R. C. Thackara. He will tell you what some of these incompetents are doing and have done.

The CHAIRMAN. Where can he be reached?

Mr. LUCKENBACH. Right at the office, right here in New York.

The CHAIRMAN. Is there anything further you have in mind?

Mr. LUCKENBACH. No; that is all.

Mr. KELLEY. Did the Government put in any of these Benson-Smith telemotor devices on your ship?

Mr. LUCKENBACH. No.

Mr. KELLEY. Have you had any ships with those on?

Mr. LUCKENBACH. No.

The CHAIRMAN. I think that is all, Mr. Luckenbach. Thank you, sir.

(Thereupon, at 5 o'clock p. m., the committee adjourned to meet at 9.30 o'clock a. m. to-morrow, Saturday, Nov. 20, 1920.)

SELECT COMMITTEE ON UNITED STATES
SHIPPING BOARD OPERATIONS,
HOUSE OF REPRESENTATIVES,
New York, November 20, 1920.

The committee met in room 401, United States Post Office Building, at 9.30 o'clock a. m., Hon. Joseph Walsh (chairman) presiding.

Present also: Hon. Patrick H. Kelley, member of committee.

TESTIMONY OF MR. ALEXANDER M. FISHER—Recalled.

The CHAIRMAN. Mr. Fisher, directing your attention to page 83 of the report submitted to this committee by yourself and Mr. Richardson, along toward the middle of the page is found the following statement:

Although at a time when the claims for settlement were pending, the Claims Board, as well as the chairman of the United States Shipping Board, has been informed of allegations involving the integrity of United States Shipping Board officials, of such a serious nature as to demand investigation before the settlement of these claims. Apparently such investigation was not made by either the Claims Board or the chairman of the United States Shipping Board. In some cases the very gravity of these allegations would seem to have demanded a thorough investigation, not only to insure proper protection to the United States Shipping Board, but also in justice to the persons about whom such allegations were made.

Upon what facts in your possession or which have come to your knowledge was that statement based?

Mr. FISHER. There are several cases, Mr. Chairman, one of which was referred to in testimony in this room as to the steamship *Lake Elkwood*, Capt. Chambliss being the person. Another case related to a port agent in France, Lieut. Louis Bernier. The particular case as to which I will testify is with reference to the present treasurer of the Shipping Board and the ex-secretary of the Shipping Board.

The CHAIRMAN. What facts have you as to them? Give the names of the present treasurer and the former secretary?

Mr. FISHER. The present treasurer is R. W. Bolling. The ex-secretary of the board is Mr. Lester Sisler.

Soon after I became connected with this committee, following our return from the west coast, I heard a story, in gossip only, which was said to emanate from one William Murtaugh, in Washington, that Wilmer Bolling had been bribed by the Downey Shipbuilding Co., or Wallace Downey.

The matter was of such a serious nature that I went to Mr. Tweedale, the then treasurer, and related the gossip, telling him that I considered it so serious that I did not want to undertake an investigation but preferred that it should be developed from within the Shipping Board. I later talked with Mr. Tweedale, and he had concluded that there was nothing in the story.

During the summer, probably in May—I have not the date of my personal knowledge, but the date appears on papers here which would fix the approximate time—the story again came to me with specific details, through an affidavit form which, I am informed, was prepared by Alfred W. McCann, and submitted to Mr. Tucker K. Sands, who had formerly been an officer of the Commercial National Bank in Washington, which was edited by Mr. Tucker K. Sands in his handwriting, I am informed, in which the allegation was specifically made that bribes had taken place and that Mr. Sands had been the intermediary as to such bribes.

I have here a photostat copy of the affidavit form, which can be identified by Mr. Alfred W. McCann, or by persons connected with the Bureau of Investigation of the Shipping Board, possibly Mr. Meehan or Mr. Morton, as I have been informed by persons connected with the Bureau of Investigation that the photostat copies were made by them.

The CHAIRMAN. Where is the original?

Mr. FISHER. I have no information as to that. The facts as to the original can be developed, I believe, through Mr. McCann. If it is in order, I can offer this photostat copy to be approved by the gentleman mentioned.

The CHAIRMAN. We will wait until it is properly identified and proven before putting it in the record. But you say that the document contains specific allegations as to bribes having been passed?

Mr. FISHER. Yes, sir.

The CHAIRMAN. Very well; we will wait until it is identified. What other facts have you?

Mr. FISHER. Following my knowledge of this affidavit form, edited by Mr. Sands, I had occasion to go to Capt. Clements's office at his request to discuss a matter concerning a Shipping Board contract settlement. During my conversation with Mr. Clements, Mr. Meehan being present, I made the remark that I believed the Shipping Board or the Emergency Fleet Corporation should determine before a settlement was made with the Downey Shipbuilding Corporation whether or not a bribe had been given by Wallace Downey to any Shipping Board official. Mr. Clements asked me if I had discussed the matter with the chairman. I replied that I had not. On my making that reply Mr. Clements went to the admiral's office and returned with the admiral, asking me if I would make the same statement to Admiral Benson that I had made to him. I then repeated the statement to Admiral Benson, that I believed the board should

determine whether or not Wallace Downey had bribed any Shipping Board official, that to be done before a settlement of his contract was made.

Admiral Benson then asked me what proof I had. I said I had none, that I was bringing information only. His next report was, "Well, then, you have no business to bring it to me." I got up from my chair, took up my hat, and said in substance, "Admiral Benson, if that is the attitude of this board I can not continue to work with it." These statements were made in the presence of Mr. Clements and Mr. Meehan. I perhaps moralized with the Admiral for a few minutes; and the Admiral then said to me, "Mr. Fisher, you are right, I am wrong;" and we shook hands and soon parted, closing the interview.

There was some discussion in which Mr. Meehan took part, as to the persons who are making these allegations or carrying the story, as to their standing from a criminal standpoint. Without recalling the conversation, I said, "Yes: one is a convict, under sentence to Atlanta, on appeal——"

The CHAIRMAN. Did you know that?

Mr. FISHER. Only as to general information and having talked with the person myself. That was Mr. Frank Fuller. The other was under indictment, I believe, for violation of the national banking law.

The CHAIRMAN. Did you know that?

Mr. FISHER. Only from general information and newspaper stories. I had no knowledge of the facts in that, but this is the conversation that took place among us.

I should say about September I was called to the office of Judge Goff, the counsel of the Shipping Board, by Mr. John Schwartzkopf, and an interview took place among Judge Goff, Mr. Talbert (of the Claims Board), Mr. Schwartzkopf, and myself, where this same matter was discussed. I told Judge Goff and Mr. Talbert of the interview I had had with the Admiral previously, and both agreed that an investigation should take place. I recommended that this investigation be a quiet investigation, because it was of such a serious nature as to the allegations, and believed that I was assured that it would be made.

Following that I undertook an investigation myself to corroborate statements made in the affidavit, particularly as to the clearance of the alleged notes. I have not completed that investigation as to the one bank, the Title & Trust Co., of Connellsville, Pa.; but I have affidavits from the Takoma Park Bank of Maryland and the District of Columbia, from the Hanover National Bank of this city, and the Corn Exchange National Bank of this city, showing the clearance of two of the notes alleged to have been discounted by Mr. Tucker K. Sands. The clearance, according to the affidavits, shows that the two notes were charged to the account of Wallace Downey. There are present this morning representatives of the banks who can identify the affidavits as to the Hanover National Bank and the Corn Exchange Bank. No one is here as to the Takoma Park Bank affidavit.

I have discussed this matter with one Nathan Musher, who has stated to me, in the presence of Mr. Richardson and Mr. Corbett, one

of the reporters for these hearings, that he discounted one of the notes for Mr. Tucker K. Sands. I believe, I am not clear, that Mr. Sands took the note up again without clearing it through the banks to the account of Wallace Downey. I do not know which note that was. I have discussed this matter with Mr. McCann, who has stated that he wrote the affidavit form, and in his presence and in that of Mr. Schwarzkopf the editing was done.

I wish to make it clear that this does not establish a criminal act. I do not consider that criminality has been proved. This is an offer to prove the allegation in our report that investigation was not made after having brought the matter to the attention of the chairman and the counsel and a member of the claims board.

The CHAIRMAN. How do you know an investigation is not in progress now?

Mr. FISHER. I do not as to that.

The CHAIRMAN. How do you know it was not put in motion after the September interview you had with Mr. Goff?

Mr. FISHER. I believe there will be testimony here this morning—

The CHAIRMAN. From whom?

Mr. FISHER. From the several persons I have mentioned, that they have not been approached for information as to these allegations. I believe that will appear in the examination of the representative of the Hanover National Bank, Mr. Nieman, and the examination of the representative of the Corn Exchange Bank, Mr. Malmar, and the examination of Mr. Tucker K. Sands.

And I have had a telephone conversation, following an interview with Mr. Lester Sisler, which took place some three or four weeks ago in the presence of Mr. Richardson, at which time Mr. Lester Sisler stated that he had not been seen by anyone with reference to these allegations. I told Mr. Sisler that the allegations were in writing. He said that it was a dastardly untruth if so. I talked with Mr. Lester Sisler, calling the telephone number New Rochelle 239, party R, at about 7.20 this morning, and asked if he had seen the admiral or had anybody seen him with reference to these allegations.

The reply over the telephone was that he had been to Washington; that Admiral Benson was in the south; and that so far he had not been interviewed with reference to this. He did suggest in this telephone conversation that perhaps the Department of Justice had investigated this matter in a way a year ago, but if such an investigation took place it was before the date of this affidavit form to which I have referred here.

Mr. KELLEY. May I ask a question right there? Do you mean to state, Mr. Fisher, that even if the facts set forth in the affidavit are proven, it would not involve a criminal prosecution?

Mr. FISHER. I do not state that.

Mr. KELLEY. What did you say?

Mr. FISHER. I say that I consider that criminality is not proved through this affidavit; it is a mere allegation of corruption and not proof of it. I state that, because I feel, in justice to the parties, that judgment should be suspended as to criminality. My criticism is, as alleged in my report, that on information to the Shipping Board, in the persons of Admiral Benson, Judge Goff, Mr. Talbert, and persons in the Bureau of Investigation, this should have been investigated thoroughly so as not to make it a public matter.

Mr. KELLEY. Well, Mr. Fisher, unless you are in possession of information which would tend to establish the truth of the affidavit, would you be warranted in making this public as you have done this morning?

Mr. FISHER. I have corroborative evidence in the form of affidavits, as to the clearance of the notes.

Mr. KELLEY. Without any knowledge as to what the notes were given for in the first place?

Mr. FISHER. Yes, sir.

Mr. KELLEY. Do you think that is sufficient evidence to make a statement of this kind on?

Mr. FISHER. In so far as a corroboration of this affidavit is concerned only.

The CHAIRMAN. Have any further facts come to your knowledge in connection with this matter?

Mr. FISHER. I believe I have stated the facts as I know them.

The CHAIRMAN. Did the Downey Shipbuilding Corporation have a contract to build ships with the Shipping Board?

Mr. FISHER. I believe they did, sir. That is generally stated in the Shipping Board. I have not investigated the Downey contracts.

The CHAIRMAN. You do not know what the financial relations of the parties involved in this allegation of yours were prior to these transactions, do you?

Mr. FISHER. Only as a statement was made by Mr. Meehan——

The CHAIRMAN. No; of your own knowledge?

Mr. FISHER. I have not knowledge.

The CHAIRMAN. You do not know whether they had financial transactions extending over a period of years or not?

Mr. FISHER. I do not know.

The CHAIRMAN. You do not know whether this transaction was for any improper purpose?

Mr. FISHER. I do not know. I would consider, if I did know——

The CHAIRMAN. Have you ever asked Admiral Benson or anybody in authority in the Shipping Board since, why it was not investigated?

Mr. FISHER. Not why it was not investigated, but whether it had been investigated.

The CHAIRMAN. What did they say?

Mr. FISHER. I have spoken to Mr. Clements, and I have been informed that it had not been investigated so far as he knew.

The CHAIRMAN. Were you satisfied with just that without asking the reasons?

Mr. FISHER. I have spoken to Mr. Morton, of the Bureau of Investigation, and he has stated that it was not investigated so far as he knew.

The CHAIRMAN. Have you ever endeavored to ascertain from the Shipping Board, or any of its higher officials, why the matter was not investigated?

Mr. FISHER. I have not, as to why?

The CHAIRMAN. Then you do not know but what they have had an investigation made by the Treasury Department or the Department of Justice, and ascertained that the allegations were unfounded?

Mr. FISHER. That may be so.

The CHAIRMAN. Then, if they had done that, your allegation in the report would not stand, would it?

Mr. FISHER. I would say it would not.

The CHAIRMAN. And you have not ascertained whether that was so, or asked if it was so, or asked the reason?

Mr. FISHER. I have endeavored to ascertain it by approaching the persons mentioned in the affidavit and those who have knowledge as to the clearance of the transactions.

The CHAIRMAN. But have you ever endeavored to ascertain the reason, from the Shipping Board officials, why an investigation was not made?

Mr. FISHER. I have not.

The CHAIRMAN. Why not?

Mr. FISHER. I did not consider that it was my function to interrogate Shipping Board officials as to why they did one thing or another.

The CHAIRMAN. Yes; you have ascertained what they have done, or if they have done something?

Mr. FISHER. I have endeavored to do so.

The CHAIRMAN. And you have been told, upon the interviews you have had, by Commander Clements, and as I understood, by Mr. Goff, that the matter had not been investigated?

Mr. FISHER. Commander Clements and Mr. Morton, at the Bureau of Investigation.

The CHAIRMAN. And Mr. Morton. Are there any questions, Mr. Kelley?

Mr. KELLEY. With reference to the proof of the allegations in the affidavit, are the witnesses at hand to substantiate it?

Mr. FISHER. Mr. Tucker K. Sands is at hand; the man who edited this affidavit form, and who would be responsible for his statements as to their truth or not. Mr. McCann is here.

Mr. KELLEY. He is one of the parties to the fraud?

Mr. FISHER. If it be so. It may not be so, Mr. Kelley. This is not an allegation of crime, on my part; it is an allegation of a failure in the administration of the Shipping Board to investigate on information.

Mr. KELLEY. What looks to you like a crime?

Mr. FISHER. What may be a crime.

Mr. KELLEY. The criticism I had in my mind, Mr. Fisher, was that if you had not anything more than that, it is a question whether or not publicity should be given connecting these men with it, because that is a very damaging thing.

Mr. FISHER. That was one of the matters I took up with Admiral Benson, Mr. Kelley, that publicity was bound to come in this if an investigation were not made.

Mr. KELLEY. Well, I know; but as far as I am concerned I would not want it to come through me. If there is no proof to connect these gentlemen with this transaction, I would not want to have anything to do with it.

Mr. FISHER. Well, I can appreciate that.

Mr. KELLEY. The reputations of men are a pretty sacred thing, you know.

Mr. FISHER. I understand that; but this information was developed in the hands of newspaper men, and has been sacredly held from

the public, as against a man's reputation. They themselves have been to the Shipping Board and to others, endeavoring to get an investigation made. That is the statement made to me by them.

Mr. KELLEY. You are satisfied in your own mind, are you, that there are sufficient facts obtainable to dispose of the matter one way or the other?

Mr. FISHER. I think that ought to be done by a thorough investigation.

Mr. KELLEY. So that they would be cleared or the allegations would attach to them, one or the other?

Mr. FISHER. Yes, sir.

Mr. KELLEY. And do you think that proof is at hand so that we could establish that?

Mr. FISHER. I have not the proof, Mr. Kelley.

Mr. KELLEY. Do I understand, Mr. Fisher, that your evidence only goes to the fact of showing that these transactions occurred, without knowing what these notes were given for in the first place?

Mr. FISHER. On my part?

Mr. KELLEY. On anybody's part; is there proof anywhere as to what these notes were given for?

Mr. FISHER. In this unsigned affidavit form, edited, is the allegation as to the purpose for which the notes were given.

Mr. KELLEY. Well, I understand nobody ever signed that.

Mr. FISHER. I understand that also.

Mr. KELLEY. Has any investigation ever been made of the books of the Downey Shipbuilding Corporation to determine what this money was paid for when the notes were paid?

Mr. FISHER. Mr. McNeary's office has made some investigation of that recently, but I do not believe that sufficient investigation has been made to definitely connect items which perhaps are unsupported by vouchers, with these items that I referred to, although items are somewhat similar in amount, which may be questioned.

Mr. KELLEY. You have the witness who drew this affidavit?

Mr. FISHER. Mr. Alfred McCann is here, under subpoena.

The CHAIRMAN. Have you any further questions, Mr. Kelley?

Mr. KELLEY. No; I think not.

The CHAIRMAN. Mr. Alfred W. McCann.

TESTIMONY OF MR. ALFRED W. McCANN.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Your name is Alfred W. McCann?

Mr. McCANN. Yes.

The CHAIRMAN. Where do you reside?

Mr. McCANN. Yonkers, N. Y.

The CHAIRMAN. What is your profession or business?

Mr. McCANN. Newspaper man.

The CHAIRMAN. Upon what paper?

Mr. McCANN. The New York Globe.

The CHAIRMAN. How long have you been in the newspaper business?

Mr. McCANN. I have been on the Globe about nine years.

The CHAIRMAN. Were you in the newspaper business prior to your service with that paper?

Mr. McCANN. No.

The CHAIRMAN. Have you heard Mr. Fisher's testimony here this morning?

Mr. McCANN. Yes.

The CHAIRMAN. Did you at one time prepare a form of an affidavit for signature by Mr. Tucker K. Sands?

Mr. McCANN. I assisted in its preparation.

The CHAIRMAN. Who did you assist?

Mr. McCANN. Mr. John Schwarzkopf, an attorney.

The CHAIRMAN. I hand you a photostat copy, which I would ask you to examine and state whether or not that is a copy of the original document which you assisted in preparing?

Mr. McCANN. This is the photostat copy made in the United States Shipping Board of the original document which I and Mr. Schwarzkopf took to the Shipping Board for the purpose of having it copied, believing at the time that it would not be signed, although it had been corrected and interlined, and various changes entered upon the margins of the affidavit by Mr. Tucker K. Sands, who had made the statements embodied in the document.

The CHAIRMAN. Who else was present when you were preparing that document?

Mr. McCANN. Mr. Schwarzkopf.

The CHAIRMAN. Just you and he?

Mr. McCANN. Yes. Mr. Sands had asked us to prepare it.

The CHAIRMAN. Had you talked with Mr. Sands?

Mr. McCANN. Yes; we had examined Mr. Sands for several hours.

The CHAIRMAN. And was the document as prepared later given to him?

Mr. McCANN. Yes. I think I can make that clear if you will permit me to make a statement concerning the origin of the document.

The CHAIRMAN. Very well.

Mr. McCANN. Mr. E. E. Gano, district auditor of the Shipping Board in this district, had reported to me that an advance of \$2,505,000 had been made without his knowledge, contrary to regulations and over his head, to the Wallace Downey Shipbuilding Corporation of Staten Island, and he had given me numerous details concerning that alleged transaction, which I had checked up on. Among them was information that led me to discuss this matter with a Mr. Fuller, who had formerly been president of the Columbia Hotel & Supply Co., an Armour & Co. subsidiary in Washington. He told me he knew all about the transaction, because he had had in his possession four notes issued by Wallace Downey to Tucker K. Sands, vice president of the Commercial National Bank of Washington; that these notes he said had been, according to Mr. Sands's statement to him, in payment of a bribe to Shipping Board officials. He told me the names of the officials who were said to have been involved, and he mentioned Mr. R. Wilmer Bolling, and I believe he mentioned Mr. Lester Sisler.

I then went to Mr. Sands in Washington. I first went to the Commercial National Bank in Washington and asked for the president of the bank. I was referred to one of the other officials, I believe the cashier, who said, "You can not find Mr. Sands here; he is no longer connected with the bank, but you can find him in the Evans Building."

I went to the Evans Building with Mr. Schwarzkopf and found Mr. Sands. When we entered the room I said to him, without introducing myself or Mr. Schwarzkopf, "Mr. Sands, I want all the information you have concerning those Wallace Downey notes." "My God," he said, "is that coming out now?" I said, "I don't know that it is necessary that it come out. I want the truth about it." "Well," he said, "look at the people involved." "I said, "Well, never mind the people involved. How about yourself? How did you hypothecate those notes? To whom was the money paid?"

Then he told me how the notes had been hypothecated in the Tacoma Park Bank and this trust company in Connellsville, Pa., and how the proceeds were divided, naming R. Wilmer Bolling, Lester Sisler, a man by the name of Cranor, and himself.

After discussing the details and making notes of Mr. Sands's statements I asked him if he would reduce them to affidavit form. He said, "Yes, if you will prepare the affidavit. I am sick of this, but if it comes out I am ruined, because on June 1 I am to go away to New York to accept a new position. I have been under fire down here; trouble with the Comptroller of the Currency and the Department of Justice, and I have got all that thing fixed up so that there will be no more come out of it, and now this thing comes and it throws me all back again." And he said, "I would like to save Mr. Bolling, who is a friend of mine and lives next door." I said, "Well, Mr. Sands, we will make this as plain a statement as possible and embody in it just what you said, without going into painful details."

We went to an office. I do not know whose office it was—Mr. Schwarzkopf can throw light upon that—a lawyer's office in Washington—and there from our notes we prepared this affidavit and returned to Mr. Sands with it. Mr. Sands took the affidavit and he began to read. There were some places that we left blank for him to fill out, and with his pen he entered in the blank the information that we wanted to be very certain about as regards dates and so on, and then he said, "There is one paragraph here that is not quite right. I think that had better be corrected." And he corrected it; he scratched it out and he wrote on the margin the correction. And so on all through, even to the correction of spelling. After he had got down to the last paragraph he said, "You are not investigators of the Walsh committee." We said, "No; we never said so." "Well," he said, "I see you are a newspaper man. That makes it worse. I won't sign anything like this now until I consult with my attorney." He said, "Will you go outside until I get my attorney?"

Mr. Schwarzkopf and I went into the other room—there were two rooms in this suite—with this paper. I said to Schwarzkopf, "I don't believe he will sign that. We better get that over to the Shipping Board immediately, while we are waiting here for the attorney." We went to the Shipping Board and we saw Mr. John T. Meehan and others—I believe Mr. Norton and Mr. Hart—and laid this before them, and Mr. Meehan sent us down to the photostat department with, I think Mr. Hart, and there the original document was photostated, one copy was reserved for the files of the Shipping Board, a copy was given to me, and one copy was given to Mr. Schwarzkopf. This is the original copy given to me, which I subsequently turned over to Mr. Fisher.

When we returned to the office of Mr. Sands there was loud conversation going on in the other room; they had not yet come out for us; and we remained in that anteroom, with Mr. Sands's stenographer, who in the meantime, was making copies of the carbon copy of this, without the corrections, for perhaps a half an hour. Finally, Mr. Sands dismissed his attorney and asked us to come into the other room, and he said, "My attorney will not permit me to sign this." And he took the paper from my hands, and I think destroyed it. We were not interested in the original paper, because the record of what he had said was in the hands of the Shipping Board.

I saw Judge Goff about this, Commander Clements, Admiral Benson, Secretary Daniels, Secretary Meredith, ex-Secretary William G. McAdoo, urging them for the decency of public service to make a full and complete investigation of these charges, because they affected the President's family, his brother-in-law. I never made much headway, as far as getting anything further done.

The CHAIRMAN. Did you prepare the concluding paragraph of this document:

This affidavit is freely made by me with the desire that it shall not be used for newspaper publication, but may be submitted to the subcommittee of the House of Representatives.

Mr. McCANN. Yes, sir. We had talked about that, and I put all that in. He expressed great anxiety lest this thing might come out. I said I was not desirous of having it come out at all; in fact, I did not think it should be brought out until the officials involved had every opportunity to have the truth aired. It was not for publicity purposes, and I wanted to assure you of that, even in writing.

The CHAIRMAN. At the time this was prepared, had there been a libel suit brought against your newspaper?

Mr. McCANN. Oh, yes, the accusations made by Mr. E. E. Gano concerning the manner in which Wallace Downey Shipbuilding Corporation had obtained money from the Shipping Board in large sums, advanced to it before any work was undertaken, had all been published by me, and the corroborating evidence of that transaction was all so unimpeachable and correct that it would have been a miscarriage of justice not to have published the facts, disclosing, as they did, the corruption and rescality and favoritism going on in the Shipping Board. We published that statement, and Mr. Wallace Downey immediately brought suit against the Globe, although he never filed a bill of complaint and that suit was a heroic gesture.

The CHAIRMAN. Well, has it ever been tried?

Mr. McCANN. Never, nor will it.

The CHAIRMAN. Is it pending?

Mr. McCANN. No. He never filed a bill of complaint within the time limit of 20 days in which he was permitted to do so. He served papers upon the Globe, and the following day advertised in the New York papers, including the New York Times, that he had sued the Globe for this libel, and that never had he directly or indirectly given a bribe to any public official of any kind whatsoever. That was the advertised defense, since which we have heard no more about it. The Globe would have been very glad to have paid his counsel fees, to have had him go on with his suit.

The CHAIRMAN. Since that affidavit was prepared but not signed, have you conferred with any of the officials of the Shipping Board with reference to the transaction?

Mr. McCANN. Yes, with Admiral Benson, with Commander Clements, with John T. Meehan, with Lieut. or Capt. Norman McLeod, with investigators Norton and Hart and Richardson and Fisher, with the Secretary of Agriculture, Mr. Meredith, and Secretary of the Navy, Mr. Daniels.

The CHAIRMAN. No Shipping Board people.

Mr. McCANN. Yes. With Judge Goff.

The CHAIRMAN. Have they told you whether or not any investigation was being made?

Mr. McCANN. No.

The CHAIRMAN. Have you asked whether they were investigating it?

Mr. McCANN. No.

The CHAIRMAN. Have you asked whether they had the information?

Mr. McCANN. I was informed, but I do not know how credibly, that Admiral Benson had called Mr. Bolling into his office and had talked with him about this, and Mr. Bolling——

The CHAIRMAN. Who told you this?

Mr. McCANN. I am not sure whether the statement was made by Mr. Richardson or Mr. Fisher, that Mr. Bolling——

The CHAIRMAN. Well, neither Mr. Goff nor Admiral Benson told you, or Mr. Bolling?

Mr. McCANN. No. It was said that Mr. Bolling——

The CHAIRMAN. No, never mind, I do not care what somebody else told you, unless it was in this matter.

Mr. McCANN. Well, I do not know.

The CHAIRMAN. Did you ever talk with Mr. Bolling about this?

Mr. McCANN. No.

The CHAIRMAN. Have you ever talked with Mr. Sands about it since?

Mr. McCANN. This morning.

The CHAIRMAN. Only this morning?

Mr. McCANN. Yes.

The CHAIRMAN. Have you ever talked with any of the bank officials since?

Mr. McCANN. No.

The CHAIRMAN. Have you ever talked with any of the Downey Shipbuilding officials since?

Mr. McCANN. No.

The CHAIRMAN. Did you get the information contained in this unsigned paper from anybody else except Mr. Sands?

Mr. McCANN. Part of it, yes; part of it.

The CHAIRMAN. From whom else?

Mr. McCANN. Mr. Fuller told me that those notes had been in his possession. I did not know much about the notes, except that Mr. Bolling's name had been mentioned. Then I went to Mr. Sands for the purpose of having that statement corroborated, and he threw further light upon the statement by giving me the details, some of which have been put to the proof by Mr. Fisher, I understand from

his testimony, through these affidavits from the banking officials, so that checks up on the information that Mr. Sands gave me and which I in turn gave Mr. Fisher, as to the accuracy of these transactions, the names of the banks and the dates when the notes were hypothecated, and the amount involved, \$40,000.

The CHAIRMAN. Have you any questions, Mr. Kelley?

Mr. KELLEY. Mr. McCann, the proof of this would involve the necessity of hearing probably some of the parties to this transaction, would it not?

Mr. McCANN. I understand Mr. Sands is here now. I saw him there a minute ago.

The CHAIRMAN. But that does not answer Mr. Kelley's question, Mr. McCann. The proof of these charges would involve calling some of the parties involved in them, would it not?

Mr. KELLEY. That is to say, the proof obtainable from parties other than these would not be sufficient, perhaps, to establish the truth of these charges; in other words, do you think that it could be proven, from your investigation of it, without calling Mr. Sands or Mr. Bolling or Mr. Cranor, or whoever it is.

Mr. McCANN. Well, the complexion of these notes is not a very healthy complexion.

Mr. KELLEY. No.

Mr. McCANN. The very fact that money did pass and somebody got money, and Mr. Sands says this is what he did with the money, is as positive as the grave.

Mr. KELLEY. You see what I am getting at is this, Mr. McCann. If what is set up here, or what you think the facts are, could be proven without the use of any of these parties, why that probably would be the duty of the committee, to proceed along that line.

Mr. McCANN. I think so, because I believe if they are brought here, they get an automatic immunity bath, do they not?

Mr. KELLEY. Well, I am not quite sure how far that goes, but the question always arises.

Mr. McCANN. Mr. Sands spoke to me about that himself, last May, and he was considering the advisability or expediency of coming before the Walsh Committee for the purpose of getting an immunity bath, so that he could tell it all.

Mr. KELLEY. You can readily see that the committee would not, I suppose, speaking for committees generally, no committee would be anxious to do a thing of that sort.

Mr. McCANN. I am quite sure of that.

Mr. KELLEY. And if there were other methods of proving it, which further investigation might bring forth, it would be unwise, would it not, to call any of these parties?

Mr. McCANN. I think so, Congressman. I think the integrity of the committee's purpose has been clearly established by what has been already done.

Mr. KELLEY. Do you think, if the proper investigation was put upon this whole matter, that the truth of these charges could be sustained without calling Mr. Sands; or if not, that fact would then be determined and then the committee could determine whether Mr. Sands should be called or not?

Mr. McCANN. You are asking me for a personal opinion. I have a very strong conviction that with respect to Mr. Sands, even though

he should get immunity in this transaction, he should be called, because there are other matters not yet disposed of in which he is connected and which are so directly related to this that now, while he is living and capable of telling the committee whether or not he deliberately, with full consideration of what he was doing, introduced those changes in his own handwriting. I think that fact should be established before the committee. He is only a go-between anyhow; in this particular transaction he is hardly a principal. He admits he simply acted as an instrument to obtain this great favor for the Downey Corporation, through his friend on the Shipping Board, Mr. Bolling, and that the consideration was \$40,000, to be divided up as he describes it there.

Mr. KELLEY. He would be a part of a conspiracy to defraud the Government, would he not?

Mr. McCANN. Yes; surely,

Mr. KELLEY. This is a new matter to me, Mr. Chairman. I never had heard of this until this morning. I do not know how much consideration you have given to the question of what witnesses should be called to-day.

The CHAIRMAN. Have you any further questions from Mr. McCann?

Mr. KELLEY. No. I was trying to get from Mr. McCann, because he has given this a good deal of consideration, whether in his opinion—

Mr. McCANN. I think Mr. Sands should be called. I do not care about the others; I think Mr. Sands should be called, because he has been connected with this from the beginning, and there is a statement that he made freely and voluntarily, and he, at least, should identify it and describe the conditions under which it was obtained from him now. I do not know what statements may be made hereafter to explain this away.

The CHAIRMAN. The committee will take recess for 10 minutes.

(At this point the committee took a short recess.)

The CHAIRMAN. Mr. Tucker K. Sands.

TESTIMONY OF MR. TUCKER K. SANDS.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. What is your name, Mr. Sands?

Mr. SANDS. Tucker K. Sands.

The CHAIRMAN. Where do you reside?

Mr. SANDS. At 44 West Forty-fourth Street, New York City.

The CHAIRMAN. What is your business, Mr. Sands?

Mr. SANDS. I am manager for a brokerage concern.

The CHAIRMAN. What concern?

Mr. SANDS. Halsted & Harrison.

The CHAIRMAN. Did you formerly reside in Washington?

Mr. SANDS. Yes, sir.

The CHAIRMAN. What was your business in Washington?

Mr. SANDS. Well, for the last two years I have been out of business. Formerly I was cashier of the Commercial National Bank.

The CHAIRMAN. Are you under indictment for some offense, Mr. Sands?

Mr. SANDS. Yes, sir.

The CHAIRMAN. What offense is that?

Mr. SANDS. I am under indictment for allowing a company to overdraw, in which I was interested—a shipping company.

The CHAIRMAN. What company was it?

Mr. SANDS. It was the General Shipbuilding & Aero Co.

The CHAIRMAN. Has the case ever been tried?

Mr. SANDS. No, sir.

The CHAIRMAN. Have you tried to have it settled without coming to trial?

Mr. SANDS. I have tried; yes, sir.

The CHAIRMAN. Is it being handled by the Department of Justice at Washington?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Do you recall having conferred with Mr. McCann and Mr. Schwarzkopf with reference to certain transactions relating to the Downey Shipbuilding Co. and certain notes?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Will you look at that photostat copy [handing witness paper], and state whether or not that appears to be a photograph of a form of affidavit which was presented to you for signature?

Mr. SANDS. Yes, sir.

The CHAIRMAN. When first did you meet Mr. McCann or Mr. Schwartzkopf?

Mr. SANDS. I think it was last May, the date of this [examining paper]. It was about May, 1920.

The CHAIRMAN. Whom did they represent themselves to be?

Mr. SANDS. One said he was with the Globe and the other with the American, newspapers.

The CHAIRMAN. Did they state that they had any connection with this committee?

Mr. SANDS. Yes; they said—they did not say they had any connection with the committee, but said that they wanted to present some information to the committee.

The CHAIRMAN. Did you give them the information contained in this document?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Of which this is a copy?

Mr. SANDS. Yes, sir. I have not read it over recently and some of the facts may be just a little different. I have not read it over since.

The CHAIRMAN. I wish you would look at that and take time to read it over, and state whether these insertions in writing are in your handwriting, and whether that is a copy of the document that was prepared for your signature.

Mr. SANDS (after examining paper). Yes, sir.

The CHAIRMAN. This is the document, is it?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Why did you not sign it?

Mr. SANDS. Because I talked with my counsel. I thought the matter was serious; I talked with my counsel, and he advised me not to sign it.

The CHAIRMAN. Who is your counsel?

Mr. SANDS. Mr. Peyton Gordon, of Washington.

The CHAIRMAN. Did Mr. McCann and Mr. Schwartzkopf come to your office with the affidavit and ask you to sign it, and you told them to wait until you could confer with your attorney?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did you confer with your attorney?

Mr. SANDS. Yes, sir.

The CHAIRMAN. And did you tell Mr. McCann later that you would not sign it?

Mr. SANDS. Yes, sir.

The CHAIRMAN. What did you do with it?

Mr. SANDS. I think I have the old affidavit at home; I did not destroy it.

The CHAIRMAN. You did not destroy it?

Mr. SANDS. No.

The CHAIRMAN. Do you know Mr. John Cranor?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Who was he?

Mr. SANDS. Well, he is a promoter, a man whom I have known for years, living in Richmond, Va., and he represented the Downey Shipbuilding Co. at that time.

The CHAIRMAN. Do you know Mr. Frank Fuller?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Who was he?

Mr. SANDS. He was president of the Columbia Hotel Supply Co., one of Armour's companies in Washington.

The CHAIRMAN. Do you know Mr. William Murtaugh?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Who is he?

Mr. SANDS. Mr. William Murtaugh was—I really do not know what his occupation was, but when my indictment was under way he came to me through Mr. Fuller and tried to have it quashed. I do not know him any further.

The CHAIRMAN. Do you know Mr. Musher?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Who is he?

Mr. SANDS. He is president of the Pompeian Oil Co.

The CHAIRMAN. Where does he live?

Mr. SANDS. He lives in Washington, with an office in Baltimore.

The CHAIRMAN. Were you connected at all with the Tacoma Park Bank?

Mr. SANDS. I was a director; yes, sir.

The CHAIRMAN. Were you at all connected with the Title & Trust Co. of Connellsville?

Mr. SANDS. No, sir.

The CHAIRMAN. Do you know Mr. Lester Sisler?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Do you know Mr. R. Wilmer Bolling?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did you give Mr. McCann and Mr. Schwarzkopf the information upon which this affidavit was subsequently drawn?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Where were you when you gave them that?

Mr. SANDS. I was in my office in Washington.

The CHAIRMAN. Are you willing to state here now, on your oath, that the statements contained in this photostat copy of the affidavit which was presented to you for signature, are true?

Mr. SANDS. Yes; with one thing that I would have to look up, and that is whether I paid Mr. Bolling any of the proceeds of these notes.

The CHAIRMAN. Don't you know you never paid him a cent?

Mr. SANDS. I don't recall that I did pay him on this deal; I don't think I did.

The CHAIRMAN. Did you ever have any talk with him about the payment of the proceeds of these notes?

Mr. SANDS. No, sir.

The CHAIRMAN. Did you ever have any talk with anybody entering into an arrangement whereby he was to receive the proceeds of any of these notes?

Mr. SANDS. Do you mean did I talk to him?

The CHAIRMAN. Or anybody representing him?

Mr. SANDS. I talked to him in the first instance.

The CHAIRMAN. When was that?

Mr. SANDS. Well, it was about the—I think it must have been about May, 1917; something like that. I can not recall the dates.

The CHAIRMAN. And where was that talk had?

Mr. SANDS. In my rooms at the Willard Hotel.

The CHAIRMAN. Was he then connected with the Shipping Board?

Mr. SANDS. Yes, sir.

The CHAIRMAN. What was that talk?

Mr. SANDS. Well, the talk was a general one; if we got this contract he was to share in the proceeds, that is all.

The CHAIRMAN. If we got the contract; if who got the contract?

Mr. SANDS. Well, if I used my influence to get him the contract, that is all.

The CHAIRMAN. You said your influence with whom?

Mr. SANDS. I saw Mr. Sisler and Mr. Bolling; they were the ones I introduced to Mr. Cranor, and Mr. Cranor was the representative of Mr. Downey.

The CHAIRMAN. Don't you know, as a matter of fact, that Mr. Bolling and Mr. Sisler did not have anything to do with the awarding of contracts in the Shipping Board?

Mr. SANDS. Yes.

The CHAIRMAN. Then how did you expect to get a contract by using your influence with two men who had nothing to do with awarding contracts?

Mr. SANDS. I can not answer that.

The CHAIRMAN. You can not answer it?

Mr. SANDS. No.

The CHAIRMAN. Did you ever receive a letter from Mr. Bolling?

Mr. SANDS. I do not recall any letter from him.

The CHAIRMAN. Do you know whether or not Mr. Bolling ever sold a dwelling house to Mr. Downey, or some member of the Downey Shipbuilding Corporation?

Mr. SANDS. Not to my knowledge.

The CHAIRMAN. You do not know about that?

Mr. SANDS. I never heard of it.

The CHAIRMAN. Would you be surprised to know that he had sold him a house?

Mr. SANDS. I would.

The CHAIRMAN. And that at the time you allege these transactions took place, he had not paid for the whole of it?

Mr. SANDS. I do not know anything about it.

The CHAIRMAN. Did he ever sell you a house?

Mr. SANDS. Mr. Bolling?

The CHAIRMAN. Yes.

Mr. SANDS. Yes; he sold me a lot.

The CHAIRMAN. Did you pay him for it?

Mr. SANDS. I owe him \$900 now.

The CHAIRMAN. I show you this letter and ask you if you ever received that letter from Mr. Bolling?

Mr. SANDS. Well, I do not recall it. I do not doubt I did, because I did try to get him to help me.

The CHAIRMAN. What was the help you were trying to get?

Mr. SANDS. I was under indictment in regard to the national banking act.

The CHAIRMAN. You say you have no doubt but that you received this letter from Mr. Bolling?

Mr. SANDS. I have no doubt I did, but I do not recall it.

The CHAIRMAN. The letter is dated October 18, 1918:

DIVISION OF OPERATIONS, UNITED STATES SHIPPING BOARD,
EMERGENCY FLEET CORPORATION,
Washington, D. C.

DEAR MR. SANDS: Referring to our talk last night, when you desired to have me intervene in your behalf, I wish to confirm my attitude lest there be misunderstanding. By reason of the friendship existing between us for many years, I would be inclined to help you in any way that I could, but I am sure you will agree with me that to follow your suggestion would react to your disadvantage, and that because of my relations with the President any attempt on my part to interfere with the processes of the Department of Justice would not only be open to serious misconstruction, but improper.

Faithfully,

R. W. BOLLING.

Did you ask him to intercede with the Department of Justice?

Mr. SANDS. I do not know about with the Department of Justice, but I asked him, owing to his connection with the President, that he would see what influence he could—well, the matter had gotten out of the Department of Justice's hands, you understand, and was in the hands of the court, and I tried my best in every way, and suggested that it should be quashed.

The CHAIRMAN. What did you want him to do?

Mr. SANDS. I wanted him to have the people to review the case, and review it with the district attorney, and see if he could not get them to dismiss it. That is all I wanted him to do.

The CHAIRMAN. Did you think that was a proper thing for any citizen to do?

Mr. SANDS. Well, under those straits, Congressman, I did things possibly that I ought not to have done, but I was very anxious to have the matter disposed of, because in that matter I felt really that I was badly treated, and I thought if they reviewed the case and looked at it right and would let me testify, that they would dismiss it. It meant much to me.

The CHAIRMAN. That was never done, was it?

Mr. SANDS. It never was.

The CHAIRMAN. Now, then, how did it happen that you had frequent conferences with Mr. John Cranor?

Mr. SANDS. Mr. Cranor was a man I had known for a number of years, and he represented the shipbuilding company; and furthermore, he was very active in war work down there in Washington, and lived at the same hotel—from all those facts I had a talk with him.

The CHAIRMAN. Did you introduce him to Mr. Bolling and to Mr. Sisler?

Mr. SANDS. Well; yes, sir.

The CHAIRMAN. Did you know anybody else in the Shipping Board?

Mr. SANDS. I don't think I did.

The CHAIRMAN. Did Mr. Cranor agree to pay some commissions to you?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did you ever hear him agree to pay Mr. Bolling anything?

Mr. SANDS. No, sir.

The CHAIRMAN. Did you ever hear him agree to pay Mr. Sisler anything?

Mr. SANDS. No, sir.

The CHAIRMAN. Did you ever have any conference with Mr. Bolling and Mr. Sisler and Mr. Cranor, after this first introduction, when they were all there together?

Mr. SANDS. I can not recall, but I think it more than likely that I did.

The CHAIRMAN. But you can not recall it?

Mr. SANDS. Well, because I could not remember the interview. We had so many of them, you know. They were up at my office almost every evening.

The CHAIRMAN. He was up there at your office nearly every evening? What do you mean?

Mr. SANDS. Mr. Bolling, Mr. Cranor, and Mr. Sisler were there very frequently.

The CHAIRMAN. What were they doing there?

Mr. SANDS. Endeavoring to get contracts similar to this.

The CHAIRMAN. They came up to your office to try to get contracts with the Shipping Board?

Mr. SANDS. To discuss them; yes, sir.

The CHAIRMAN. To discuss contracts?

Mr. SANDS. Yes, sir.

The CHAIRMAN. You did not have anything to do with the awarding of contracts, did you?

Mr. SANDS. Not a thing.

The CHAIRMAN. And Mr. Sisler had nothing to do with it, did he?

Mr. SANDS. I do not know that he did.

The CHAIRMAN. Mr. Bolling had nothing to do with it, did he?

Mr. SANDS. He did not.

The CHAIRMAN. At that time he was a clerk in the treasurer's office?

Mr. SANDS. Yes, sir.

The CHAIRMAN. He was not even treasurer of the Shipping Board then?

Mr. SANDS. That is correct.

The CHAIRMAN. Did you ever meet Mr. Downey himself?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did you introduce him to Mr. Bolling?

Mr. SANDS. I do not recall whether I introduced him or Mr. Cranor introduced him, but I think it likely that I did introduce him.

The CHAIRMAN. Did you introduce him to Mr. Sisler?

Mr. SANDS. I think the same thing is true as to that.

The CHAIRMAN. How many times did you meet Mr. Downey?

Mr. SANDS. Frequently, in Washington.

The CHAIRMAN. What about?

Mr. SANDS. He was very anxious to get contracts, and he came to me as a friend to the other two parties, to see if they could help him in these matters.

The CHAIRMAN. Mr. Wallace Downey and the Downey Shipbuilding Corporation, or I mean of the Downey Shipbuilding Corporation, came to you to have you exercise your influence with Mr. Bolling and Mr. Sisler to get contracts with the Shipping Board.

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did not Mr. Downey know that Mr. Sisler and Mr. Bolling had nothing at all to do with the awarding of contracts by the Shipping Board?

Mr. SANDS. I suppose he did.

The CHAIRMAN. Well, then, why was he spending his time with you?

Mr. SANDS. I can not say.

The CHAIRMAN. Did he tell you?

Mr. SANDS. Well, no more than what I have stated.

The CHAIRMAN. Did he ever tell you that he had gone to the proper officials of the Shipping Board in an effort to get contracts and could not get them?

Mr. SANDS. I think he did say so.

The CHAIRMAN. Who did he say he went to?

Mr. SANDS. I can not recall. He must have gone to the directors and officers of the Shipping Board, but I do not know as to that.

The CHAIRMAN. Who hatched up this plan just set forth in this document here with reference to the payment of \$40,000 and the division of the commissions?

Mr. SANDS. Well, the plan originally was, as far as Mr. Downey went, just to pay the \$40,000; he had nothing to do with the division. He did not know anything about it.

The CHAIRMAN. Who first suggested that there should be a payment of \$40,000?

Mr. SANDS. I do not know how the amount was agreed upon, but think it very likely that Mr. Cranor suggested it.

The CHAIRMAN. Suggested it to whom?

Mr. SANDS. To Mr. Downey.

The CHAIRMAN. Who did Mr. Downey suggest it to?

Mr. SANDS. I do not know.

The CHAIRMAN. When did you first learn of it?

Mr. SANDS. I learned of it after we had gotten the contract.

The CHAIRMAN. After you had gotten the contract?

Mr. SANDS. Yes, sir.

The CHAIRMAN. During all those discussions that took place in your room with reference to Mr. Downey getting a contract with the Shipping Board, was there anything then said about paying money to you or to these other two gentlemen for getting the contract?

Mr. SANDS. Not that I know of.

The CHAIRMAN. Nothing was said then.

Mr. SANDS. Not that I know of.

The CHAIRMAN. So that you were not working for pay in trying to help this man get a contract?

Mr. SANDS. Not at that time.

The CHAIRMAN. When did you first start to work for pay?

Mr. SANDS. Well, we expected if we got a contract to get paid.

The CHAIRMAN. Who told you you would get paid?

Mr. SANDS. Mr. Cranor.

The CHAIRMAN. When?

Mr. SANDS. He told us during the interviews we had that if we got it Mr. Downey would be willing to pay a good commission.

The CHAIRMAN. Did he say how much?

Mr. SANDS. I do not think he did, not until afterwards.

The CHAIRMAN. Until after what?

Mr. SANDS. Until after he got the contract.

The CHAIRMAN. Did you ever hear him say a single word to Mr. Sisler or to Mr. Bolling that they were going to get any money?

Mr. SANDS. Never.

The CHAIRMAN. Did you ever hear Mr. Downey say that to them?

Mr. SANDS. No; never.

The CHAIRMAN. That they were to get any money?

Mr. SANDS. No, sir; never.

The CHAIRMAN. Did you ever tell either of them, before the contract was awarded, that they would receive some money?

Mr. SANDS. Yes; I told them, because we expected it but did not know how much. But we expected to get a commission for it.

The CHAIRMAN. You told them before you knew that you were to receive any money that they would get some of it?

Mr. SANDS. Yes; if we got it.

The CHAIRMAN. Sir?

Mr. SANDS. Yes, sir.

The CHAIRMAN. So. Mr. Cranor came to Washington and had several conferences with you and Mr. Bolling and Mr. Sisler in your room at the Willard Hotel?

Mr. SANDS. Yes, sir.

The CHAIRMAN. And you were to use your influence with those two gentlemen?

Mr. SANDS. I simply introduced them; that is all. I simply brought the parties together.

The CHAIRMAN. What were you to get money for, for the introduction?

Mr. SANDS. Well, I suppose so. That is what I thought at the time.

The CHAIRMAN. That is what you thought?

Mr. SANDS. Yes, sir.

The CHAIRMAN. When they told you you would get some money, or that Mr. Downey would be willing to pay a commission, you thought that you were to receive it simply for introducing Mr. Cranor to the two officials of the Shipping Board who had nothing to do with the awarding of contracts?

Mr. SANDS. It was very difficult in those times to tell who did award contracts. Of course, there were certain people who awarded them, but it was very hard to get at the people who did award them. I never knew.

The CHAIRMAN. Did you ever go to anybody in the Shipping Board who did award contracts?

Mr. SANDS. Never.

The CHAIRMAN. Did you ever go to anybody who did award them?

Mr. SANDS. Never.

The CHAIRMAN. How did you know who did award them if you never made an attempt to find out?

Mr. SANDS. I understood it so.

The CHAIRMAN. Who told you?

Mr. SANDS. I could not tell you.

The CHAIRMAN. This says, "\$40,000 to be divided amongst us in the following manner: \$25,000 to be paid in one lot, and equally divided in the sum of \$6,250 for each of the four of us—Sisler, Bolling, Cranor, and myself." Mr. Cranor was to share in this commission, too, was he?

Mr. SANDS. Yes, sir.

The CHAIRMAN. The representative of Mr. Downey?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Was receiving money from Mr. Downey?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Was to pay out some of Mr. Downey's money to somebody else and then was to share in it, too?

Mr. SANDS. That is correct.

The CHAIRMAN. And you say, "During the negotiations Mr. Downey came to Washington. He ratified the agreement whereby \$40,000 compensation was to be paid." Didn't you just state a moment ago that you did not know how much you were to get until after the contracts were secured?

Mr. SANDS. I think I did.

The CHAIRMAN. Well, is that true?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Then how could Mr. Downey come to Washinton and ratify this contract for \$40,000?

Mr. SANDS. He ratified it afterwards.

The CHAIRMAN. After the contract was secured?

Mr. SANDS. After it was secured.

The CHAIRMAN. Do you know the date of the Downey contract?

Mr. SANDS. I do not.

The CHAIRMAN. Do you know the date of his ratifying the arrangement?

Mr. SANDS. I do not.

The CHAIRMAN. Did you receive the money?

Mr. SANDS. Well, altogether about \$25,000.

The CHAIRMAN. That you received?

Mr. SANDS. Yes, sir.

The CHAIRMAN. In cash?

Mr. SANDS. No; in notes.

The CHAIRMAN. Now, then, it is stated here, "Payments were to be made by notes bearing date April 15, 1917." Was that correct?

Mr. SANDS. Yes, sir.

The CHAIRMAN. And is that the date of the notes?

Mr. SANDS. Yes, sir.

The CHAIRMAN. And you say "But Mr. Downey insisted that the ostensible consideration for these notes should be my services in procuring a loan of money for him." Is that correct?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did you procure a loan for him?

Mr. SANDS. Well, I got some money from the bank.

The CHAIRMAN. What bank?

Mr. SANDS. From the Commercial Bank, which was approved by the committees of the board, on a very favorable arrangement for the bank, and in this way: That the amount would be left on deposit. It would really strengthen their cash position that they wanted the loan. It was not to be used and was not used and was afterwards paid.

The CHAIRMAN. Well, he got a loan of \$100,000?

Mr. SANDS. Yes, sir.

The CHAIRMAN. From the Commercial National Bank of Washington?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Which money was left there on deposit? And was transferred to the savings department of the bank, was it?

Mr. SANDS. Yes, sir.

The CHAIRMAN. You and Mr. Downey had a discussion as to the ostensible purpose, or a controversy as to the basis upon which the \$40,000 fee was being paid?

Mr. SANDS. Yes, sir.

The CHAIRMAN. And he desired that the ostensible purpose thereof should be "My services in procuring for him a loan of \$100,000."

Mr. SANDS. Yes, sir.

The CHAIRMAN (reading): "But I pointed out to him that I was an officer of the bank, and as such could receive no fee for such service." Did you do that?

Mr. SANDS. Yes, sir.

The CHAIRMAN. You thought it was improper for you as an officer of the bank to receive a fee for service in getting a loan?

Mr. SANDS. Yes, sir.

The CHAIRMAN. But you thought it was all right for two officials of the Shipping Board to receive a fee for helping get a contract, did you?

Mr. SANDS. Yes, sir.

The CHAIRMAN. You were looking out for yourself then, weren't you?

Mr. SANDS. Yes, sir.

The CHAIRMAN. You did not care about these other two men?

Mr. SANDS. Well, I do care for them; I cared for them then and I care for them now.

The CHAIRMAN. Did you know that these payments were to be made by notes to these men?

Mr. SANDS. No—well, I do not believe I understand your question.

The CHAIRMAN. The reporter will please repeat the question.
(Question repeated.)

Mr. SANDS. No; they were not. The notes were made payable to me.

The CHAIRMAN. The notes were made payable to you?

Mr. SANDS. Yes, sir. I did not know that even until afterwards.

The CHAIRMAN. You did not know that until afterwards?

Mr. SANDS. No.

The CHAIRMAN. Who did you think the notes were going to be made payable to?

Mr. SANDS. I thought the payments were going to be made in cash. I did not know that notes were going to be given.

The CHAIRMAN. How much did you actually receive from Mr. Downey?

Mr. SANDS. I think I got \$30,000 altogether.

The CHAIRMAN. Why didn't you get the balance?

Mr. SANDS. Because Mr. Downey raised such a kick about it that I rebated—well, gave him back one note, and agreed to rebate five more.

The CHAIRMAN. And five more notes, do you mean?

Mr. SANDS. No; \$5,000 more. That would bring it down to \$25,000.

The CHAIRMAN. You discounted one of them at the Takoma Park National Bank, for \$10,000?

Mr. SANDS. Yes, sir.

The CHAIRMAN. When did you discount that first note?

Mr. SANDS. I can not recall the date when it was discounted.

The CHAIRMAN. You state here that you never did agree that the compensations were in any wise the result of your efforts in procuring a loan from your bank?

Mr. SANDS. Yes, sir.

The CHAIRMAN. (Reading) "Because the real effect is that the basis of the payment of these fees or commissions represented by the \$40,000, was our service in procuring from the Shipping Board, through my connections thereto, the contract with Downey or his corporation."

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did you know anything about the Downey Shipbuilding Co. before you met Mr. Cranor?

Mr. SANDS. I did not.

The CHAIRMAN. How much money do you say Mr. Bolling got as the result of this transaction?

Mr. SANDS. I do not think Mr. Bolling got any of that. That is what I wanted to state, but I did not say it in there [pointing to the form of affidavit]. I do not think Mr. Bolling got any of that money.

The CHAIRMAN. He did not get any of the money at all?

Mr. SANDS. I do not think he got any.

The CHAIRMAN. Why didn't he get it?

Mr. SANDS. Because he would not take it.

The CHAIRMAN. He would not take it?

Mr. SANDS. No; he would not take it.

The CHAIRMAN. And he never knew that he was to get it, did he?

Mr. SANDS. Well, I suppose he expected to get it.

The CHAIRMAN. Oh, you suppose, but what do you know about it?

Mr. SANDS. I do not know.

The CHAIRMAN. Was anything ever said that he was to receive any money?

Mr. SANDS. Well, I can not say that there was.

The CHAIRMAN. No. You say now that he did not get any money?

Mr. SANDS. I do not think he got any of that.

The CHAIRMAN. And you did not promise him any?

Mr. SANDS. I think I promised him, sure, that he would get his part of the fee when we got the money.

The CHAIRMAN. What did he say?

Mr. SANDS. I do not recall his conversation now.

The CHAIRMAN. Well, if he got no money, how came it that you said in this document you meant, which you were asked to sign, "It was always understood by Mr. Bolling and among us that Mr. Bolling was to receive \$6,250 from the proceeds of the discounts of the notes, but for some reason he became worried and did not accept the balance of the \$6,250 still due. I had in the meantime advanced to him in different sums approximately \$1,800."

Mr. SANDS. That is correct.

The CHAIRMAN. Which is correct now—what you say in this paper or what you have stated here to us?

Mr. SANDS. What I put there is correct.

The CHAIRMAN. How did you give him \$1,800?

Mr. SANDS. I gave him as a loan, up to that time, about \$1,850 or maybe \$1,900.

The CHAIRMAN. As a loan?

Mr. SANDS. Yes, sir.

The CHAIRMAN. From the proceeds of the money?

Mr. SANDS. Well, I do not know that it was from the proceeds of that money, but it was money I gave him, out of my own money.

The CHAIRMAN. Did you take a note from him for it?

Mr. SANDS. No, sir.

The CHAIRMAN. You knew him pretty well, didn't you, to let him have \$1,800 without any note or security for it?

Mr. SANDS. Yes, sir.

The CHAIRMAN. You were in the banking business, weren't you?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Do you do that ordinarily with people you know?

Mr. SANDS. Personally, I do.

The CHAIRMAN. You do?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did you let Mr. Sisler have any money that way?

Mr. SANDS. I let Mr. Sisler have—I loaned one of his companies that he was in, I think \$5,000, and I think I gave him about \$5,000. I can not say exactly.

The CHAIRMAN. What kind of company was it?

Mr. SANDS. It was a gravel company.

The CHAIRMAN. Without taking a note?

Mr. SANDS. I took a note for that.

The CHAIRMAN. Oh, you took a note in that case?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did you pay this to Mr. Bolling in one sum?

Mr. SANDS. I do not think so. I think I gave it to him in different items. We were very intimate, and if I had money at any time and he wanted it I would be willing to let him have it.

The CHAIRMAN. How old is Mr. Bolling, if you know?

Mr. SANDS. Mr. Bolling is about 39 or 40 years old. He is about that age.

The CHAIRMAN. What salary were you getting, Mr. Sands, at that time?

Mr. SANDS. At the bank?

The CHAIRMAN. Yes.

Mr. SANDS. I was getting from the bank about \$8,500, and I had some other salaries, too.

The CHAIRMAN. Do you know whether this is a copy of a letter you ever wrote to Mr. McAdoo? [Handing witness a paper.]

Mr. SANDS. Yes, sir; I remember this.

The CHAIRMAN. Did that have any connection with this transaction?

Mr. SANDS. No, sir.

The CHAIRMAN. That is another proceeding?

Mr. SANDS. Yes, sir.

The CHAIRMAN. How did you happen to be writing to him about it?

Mr. SANDS. Because Mr. McAdoo was Secretary of the Treasury, and my indictment was under the comptroller's office, and I thought he might review the case, and maybe they would call it back to the comptroller's office.

The CHAIRMAN. You tried to get him to intercede in your behalf?

Mr. SANDS. Yes, sir.

The CHAIRMAN. That was the purpose of that letter?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did Mr. Bolling ever repay you the \$1,800 he borrowed from you?

Mr. SANDS. I think he paid me back about \$300.

The CHAIRMAN. He still owes you the balance, then?

Mr. SANDS. Yes, sir.

The CHAIRMAN. If you had no note or other evidence of that loan, how are you going to collect it if he refuses to pay?

Mr. SANDS. Well, I do not ever expect to collect it. I didn't expect to collect it when I loaned it. I thought he would be entitled to that as his part of the commission.

The CHAIRMAN. You never told him so, did you?

Mr. SANDS. I have never said anything to him about it.

The CHAIRMAN. No. You never told Mr. Bolling that you loaned him that \$1,800 because he had \$6,250 coming to him, and that you were letting him get that \$1,800 on account?

Mr. SANDS. I do not know that I told him, but I had that in mind.

The CHAIRMAN. You had that in your own mind?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Isn't it a fact that R. Wilmer Bolling, at present treasurer of the Shipping Board, never received a single penny from you or from anybody else to help secure a contract for the Downey Shipbuilding Co., or anybody else, while he was in the employ of the Shipping Board?

Mr. SANDS. I don't think he did, no.

The CHAIRMAN. Yet you signed this affidavit——

Mr. SANDS (interposing). No; I never signed it.

The CHAIRMAN. Well, you agreed to this affidavit, and were prepared to sign it until advised by your lawyer not to do so, stating that "Mr. Bolling was to receive \$6,250 of the proceeds of the discount of the note, and that he became worried and did not accept the balance," but you had in the meantime advanced to him in different sums \$1,800. Those advances were loans and had nothing to do with the Downey contract; wasn't that so?

Mr. SANDS. In the final analysis it was.

The CHAIRMAN. You never told him when he asked for a loan of money: I will let you have \$500, or whatever sum it was, and when we settle up on the Downey matter we will take it from what is coming to you.

Mr. SANDS. I don't think we ever had that conversation.

The CHAIRMAN. Or anything like that?

Mr. SANDS. No, sir.

The CHAIRMAN. There was nothing said with reference to Mr. Bolling, by him to you or by you to him, that he was to receive any payment or commission in connection with the Downey contract, was there?

Mr. SANDS. Well, I have outlined that. In the original case there was; that he was to get his part when we divided it. That was all.

The CHAIRMAN. You said there was an understanding?

Mr. SANDS. Well, I will say so, that there was an understanding, then.

The CHAIRMAN. Did he say anything to you that indicated to you that he understood it?

Mr. SANDS. Well, my recollection is that he did.

The CHAIRMAN. Well, when, where, and what was said?

Mr. SANDS. Well, I can not recall. That was a conversation that occurred, but it was distinct between us at the time, or among us, I mean.

The CHAIRMAN. I see. Have you had any controversy or difficulty with Mr. Bolling?

Mr. SANDS. No, sir.

The CHAIRMAN. Are you on friendly terms with him still?

Mr. SANDS. I think so. I am friendly with him.

The CHAIRMAN. When did you last see him?

Mr. SANDS. I have not seen him for about six months.

The CHAIRMAN. When were you last in Washington?

Mr. SANDS. Well, I was there in September.

The CHAIRMAN. September of this year?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did you go to see him at that time?

Mr. SANDS. No, sir.

The CHAIRMAN. Did you get any message from him?

Mr. SANDS. No.

The CHAIRMAN. Did any of the investigators of the Shipping Board come to see you with reference to this matter?

Mr. SANDS. No.

The CHAIRMAN. Sir?

Mr. SANDS. No, sir.

The CHAIRMAN. Did any other agent of the Government, of the Department of Justice or of the Treasury Department, come to see you about it?

Mr. SANDS. No, sir.

The CHAIRMAN. Have you told this story to anybody else besides Mr. McCann and Mr. Schwarzkopf?

Mr. SANDS. No, sir.

The CHAIRMAN. Did you hear Mr. McCann testify this morning?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Has he stated substantially what took place between you and him?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did you tell him when he went to see you at the bank or at your office, or did you express some anxiety about this matter becoming known?

Mr. SANDS. Yes, sir; because I had had so much trouble, and I was trying to get on my feet again, and everything, as everybody knows, that goes into the newspapers, ruins one. I would rather it would not be mentioned, was the situation. That was the only thing. I would not otherwise mind telling it.

The CHAIRMAN. How would you expect that the Downey Shipbuilding Corporation, a big concern, having a contract with the Shipping Board for the construction of ships, knowing that their books were being subject to audit by the Shipping Board, and your having reason to know that, could issue notes to you, which you subsequently discounted, without some inquiry being made into the purpose of those notes.

Mr. SANDS. Well, I thought they would see the charges on their books, as far as that goes; I thought they would see the charges on their books, but I thought it was a legitimate proposition at the time.

The CHAIRMAN. Were they the notes of the company or the personal notes of Mr. Downey?

Mr. SANDS. They were his personal notes.

The CHAIRMAN. Oh, they were the personal notes of Mr. Downey?

Mr. SANDS. Yes, sir.

The CHAIRMAN. They were not the notes of the corporation?

Mr. SANDS. No, sir.

The CHAIRMAN. Was Mr. Downey the treasurer of the company?

Mr. SANDS. He was the president.

The CHAIRMAN. What took place in this interview with Mr. Bolling on the night of October 17, 1918, when he says in his letter "Referring to our talk last night when you desired me to intervene in your behalf. I wish to confirm my attitude lest there be misunderstanding." This letter being dated October 18, 1918, what took place at that interview?

Mr. SANDS. It was a heart-to-heart talk with him to see if he could not influence the district attorney or anybody to review the case, and

not to try it at the time, and to discuss it on its merits, and see if it could be dismissed. I thought he in his position would be in a position to get a better hearing than I would.

The CHAIRMAN. You were asking Mr. Bolling, by reason of his relationship to the President of the United States, to intercede in your behalf?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did you refer to this other transaction that night?

Mr. SANDS. I do not recall referring to it.

The CHAIRMAN. What was that answer?

Mr. SANDS. I do not recall referring to it then. We were very intimate, and lived next door, but I do not recall referring to it at all.

The CHAIRMAN. You had other matters on your mind about that time?

Mr. SANDS. Yes.

The CHAIRMAN. You had gotten into difficulty with the law?

Mr. SANDS. Yes, sir.

The CHAIRMAN. And were seeking assistance to get out?

Mr. SANDS. Yes, sir; that is right.

The CHAIRMAN. You were not worrying very much about this other matter, this Downey matter?

Mr. SANDS. No; I was not worrying at all about that.

The CHAIRMAN. Had you received any money at that time?

Mr. SANDS. I do not think we had gotten any money?

The CHAIRMAN. That was on October 18th, 1918?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did you know that a note of Wallace Downey's, indorsed by you, was discounted by the Tacoma Park Bank on June 7, 1918?

Mr. SANDS. Yes, sir.

The CHAIRMAN. You had gotten that money, hadn't you?

Mr. SANDS. We had gotten that \$10,000; yes, sir.

The CHAIRMAN. That was \$10,000 that was sent to the Hanover National Bank of New York for collection, that note was?

Mr. SANDS. Yes, sir.

The CHAIRMAN. How was it that this note, which was dated March 15, 1918, was not discounted until June?

Mr. SANDS. I do not know except that it ran for a long time. It was a six months note.

The CHAIRMAN. It was a six-months note?

Mr. SANDS. Yes, sir.

The CHAIRMAN. In this form of affidavit you say the understanding was that the notes were to be dated April 15, 1917?

Mr. SANDS. 1917, is it?

The CHAIRMAN. Yes.

Mr. SANDS. Well, maybe I have the wrong year, then, but it ought to be 1918. I think now it is 1917.

The CHAIRMAN. That is what this other says, and yet the note for \$10,000 is dated March 15, 1918?

Mr. SANDS. Well, I am wrong on the year, that is all. It ought to have been a year later, 1917 instead of 1918.

The CHAIRMAN. One says April 15, 1917, this document which you did not sign.

Mr. SANDS. Well, I put that down from memory at the time. I did not refer to any books at all, and I thought it was 1917, but it may have been 1918, and I think it was March, 1918; I think that was correct.

The CHAIRMAN. On October 26 another note of \$10,000, dated March 15, 1918, and due March 15, 1918, indorsed by you, was discounted.

Mr. SANDS. Yes, sir.

The CHAIRMAN. At the Tacoma Park Bank?

Mr. SANDS. I think that is right.

The CHAIRMAN. That is just a few days after this interview with Mr. Bolling?

Mr. SANDS. That is right.

The CHAIRMAN. Did you offer Mr. Bolling any money to intercede with the authorities in your behalf?

Mr. SANDS. No, sir.

The CHAIRMAN. You did not offer to call off the loan money that you had made?

Mr. SANDS. I did not make him any offer at all. We were friends, and I thought he would do it out of friendship.

The CHAIRMAN. But he didn't.

Mr. SANDS. I did not remember that letter, but it looks now like he didn't. I thought at the time that he did.

The CHAIRMAN. Did Mr. Downey tell you at any time of the difficulty he had in getting contracts from the Shipping Board, or what the trouble was?

Mr. SANDS. No; he never told me.

The CHAIRMAN. But he did tell you that he was willing to pay you a commission for getting him a contract?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Well, now, do you know what contracts he got?

Mr. SANDS. I do not know. He got a number of boats, but I do not know what contract it was.

The CHAIRMAN. Which contract did you get for him and for which he paid you?

Mr. SANDS. The first contract; but I do not know what the contract was even.

The CHAIRMAN. You do not know what it was?

Mr. SANDS. No.

The CHAIRMAN. You do not know how it was procured?

Mr. SANDS. No.

The CHAIRMAN. And you do not know whether it involved \$100,000 or \$1,000,000?

Mr. SANDS. No; but I think it was about \$2,000,000, but I do not remember.

The CHAIRMAN. What makes you think that?

Mr. SANDS. Well, that is my recollection, but I am not sure.

The CHAIRMAN. What did you get to confirm your recollection of that?

Mr. SANDS. I can not say, except that the figures were mentioned. But I did not pay any particular attention to that. I know that it was rather a large contract, but I do not remember the amount.

The CHAIRMAN. Did Mr. Sisler or Mr. Bolling ever show you a copy of the contract?

Mr. SANDS. No, sir; I have never seen it.

The CHAIRMAN. Don't you know, Mr. Sands, that this \$40,000 payment, or these notes which were paid to you, were in connection with another transaction entirely and had nothing to do with getting a contract with the Shipping Board for the Downey Shipbuilding Corporation?

Mr. SANDS. I can not say that myself.

The CHAIRMAN. But you did say something else to Mr. McCann, didn't you?

Mr. SANDS. I think what I said to Mr. McCann I have said here. I think I have said the same thing here.

The CHAIRMAN. I am asking you now if you do not know that those notes which Mr. Wallace Downey paid to you and which you discounted, and which were sent to these banks for collection, were in reference to some other transaction entirely and had nothing to do with the contract with the Downey Shipbuilding Corporation and the Shipping Board?

Mr. SANDS. Well, I think they were for the contract and always thought so.

The CHAIRMAN. You thought so?

Mr. SANDS. I always thought so.

The CHAIRMAN. You are not sure of it now, are you?

Mr. SANDS. No; I am not sure as to what Mr. Downey thought.

The CHAIRMAN. It may have been for something else?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did you ever have any other transactions with Mr. Downey?

Mr. SANDS. No.

The CHAIRMAN. Any questions, Mr. Kelley?

Mr. KELLEY. Just a few, Mr. Chairman.

Mr. Sands, do you know whether Mr. Downey was an experienced shipbuilder or not?

Mr. SANDS. Yes, sir.

Mr. KELLEY. By answering the question "Yes, sir," do you mean that you know or that he was.

Mr. SANDS. Well, I knew that he was. I knew the record of his company as a shipbuilding company, or his record rather as a shipbuilder, for years, and he had been a shipbuilder, according to his own statement, for 25 years.

Mr. KELLEY. He had a shipbuilding yard?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Do you know whether he was building ships at the time that you first formed his acquaintance?

Mr. SANDS. Yes, sir; he was building ships then.

Mr. KELLEY. You did not know whether he was in failing circumstances or not?

Mr. SANDS. I never thought so. From the opinions I heard of him I thought he was doing very well, and was a very reliable shipbuilder.

Mr. KELLEY. If he was a reliable shipbuilder and experienced in the business and had a yard, why would he have any trouble in getting a contract from the Government when they were very anxious to place contracts?

Mr. SANDS. I do not know, but I heard a number of people say that it was very difficult to get contracts. I know that we had a little shipbuilding company down at Quantico, and we had some difficulty but got a contract.

Mr. KELLEY. You were not an experienced shipbuilder?

Mr. SANDS. No, sir; but I know or heard of others who had had a great deal of difficulty.

Mr. KELLEY. Did you know of any shipbuilding plant whose credit was all right that had any trouble in getting contracts, in April or May, 1917?

Mr. SANDS. I can not say. I do not know.

Mr. KELLEY. As I understand it, this transaction goes back into 1917.

Mr. SANDS. Well, I was mixed on my dates. The Congressman over there (pointing to Chairman Walsh) mixed me up on my dates, and I did not remember whether it was 1917 or 1918. I think it was 1917. I believe I was right on that statement.

Mr. KELLEY. It was right at the very beginning of our entrance into the war?

Mr. SANDS. Yes, sir.

The CHAIRMAN. That was the time?

Mr. SANDS. Yes, sir; well, that is right.

Mr. KELLEY. An experienced shipbuilder, in good standing, with a good yard and good credit, and everything all right, so far as you know, was willing to pay you \$40,000 to get a contract from the Government?

Mr. SANDS. Yes, sir; I do not know what—

Mr. KELLEY (continuing) You had no acquaintance with those in the Shipping Board who were letting contracts?

Mr. SANDS. I did not know them at all.

Mr. KELLEY. How did you expect that Mr. Bolling would be able to help you?

Mr. SANDS. Well, he was there at the Shipping Board.

Mr. KELLEY. Why did you pick him out?

Mr. SANDS. Well, I picked him out on account of—

Mr. KELLEY (interposing). There were a good many thousand other clerks down there, and, as I understand, he was a clerk in the Treasurer's office.

Mr. SANDS. Well, you know, in Washington—and you are a Congressman, I guess—everybody did everything they could, and went to Congressmen to try to get them to help them.

Mr. KELLEY. Well, tell what you know and not what you have heard.

Mr. SANDS. Well, everybody did everything they could to get contracts.

Mr. KELLEY. Who told you that?

Mr. SANDS. Well, I understood that to be a fact. I understood that they got Congressmen to go up to see them when they couldn't get contracts.

Mr. KELLEY. What Congressmen did they get to go up to see the Shipping Board?

Mr. SANDS. I could not tell you of my own knowledge.

Mr. KELLEY. I want you to testify of your own knowledge. You will be doing pretty well, if you do that.

Mr. SANDS. I only heard that they were using every acquaintance-ship they could muster in to get contracts.

Mr. KELLEY. How did you happen to pick this boy out?

Mr. SANDS. Because he came to me through Mr. Cranor, and Mr. Cranor knew me, and I did what I could for him.

Mr. KELLEY. How did you happen to have the thought that these men could help you, is what I am getting at.

Mr. SANDS. Oh, do you mean Mr. Bolling?

Mr. KELLEY. Yes.

Mr. SANDS. Well, I thought he knew Mr. Sisler, and Mr. Sisler was——

Mr. KELLEY (interposing). Another clerk up there.

Mr. SANDS. Well, he was secretary of the board.

Mr. KELLEY. He was secretary of the board?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And it was because of Mr. Bolling's acquaintance with Mr. Sisler?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Any other reason?

Mr. SANDS. That is all. Of course, his relationship with the President always helped in these matters, or that is the way they understood it to be; but I don't know whether it did or not——

Mr. KELLEY. Do you imagine that Mr. Bolling was often the victim of that accusation—that he would help because he was related to the President? Don't you think a good many unscrupulous persons would say to others: Why, I know Bolling, and he is related to the President?

Mr. SANDS. I dare say they used it——

Mr. KELLEY (interposing). And if you will pay me a sum of money I will get his influence.

Mr. SANDS. I dare say that was used a great deal.

Mr. KELLEY. Did you say it?

Mr. SANDS. No; I did not say it, because they came to me and asked me to do it.

Mr. KELLEY. Didn't you tell Mr. Cranor that you knew Mr. Bolling and that Mr. Bolling was related to the President, and for that reason if he would pay you \$40,000 you could help him?

Mr. SANDS. No; I didn't tell him that. Mr. Cranor really wanted to get the contract, and he thought he could get it by this method.

Mr. KELLEY. Did you know that Mr. Cranor was having difficulty at the time in getting a contract?

Mr. SANDS. I understood so, but did not know. I understood that.

Mr. KELLEY. Did he tell you that his firm was bankrupt?

Mr. SANDS. No; he never did. He told me it was a very good concern, and I thought they were, too.

Mr. KELLEY. Haven't you ever found out whether the firm was bankrupt at the time?

Mr. SANDS. Well, the reports I got on them were very good.

Mr. KELLEY. At that time?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Where did you get the reports?

Mr. SANDS. I think we got mercantile agency reports.

Mr. KELLEY. You had a report on this firm at the time?

Mr. SANDS. Yes, sir.

Mr. KELLEY. In connection with this \$100,000 loan?

Mr. SANDS. No. I got the report to see how they stood. I wanted to say, in case they asked for a loan, whether we would be in state to give it to them.

Mr. KELLEY. You expected them to ask you for a loan?

Mr. SANDS. Yes; I expected them to, but I really expected to handle it all myself.

Mr. KELLEY. Were you interested financially in this concern?

Mr. SANDS. Not at all, but I thought that I could borrow some money on the contract. I had very good credit myself. I intended to do that.

Mr. KELLEY. To borrow money on their contract?

Mr. SANDS. Yes, sir; for them.

Mr. KELLEY. Out of the bank?

Mr. SANDS. No; I did not figure on my bank at all, because our bank would not take any risk on it all, but I thought that on my indorsement I could get the money for them.

Mr. KELLEY. Do you know whether or not the Government purchased a yard for this company?

Mr. SANDS. I do now know.

Mr. KELLEY. Is it not a fact that the Government purchased a yard at something like \$100,000,000 for this company?

Mr. SANDS. I do not know; I did not follow it up.

Mr. KELLEY. Who reported to you that they were in fine circumstances financially?

Mr. SANDS. Well, I got the mercantile reports. I learned all of them were doing well then, were making money, and I thought they were good. But as a banking concern we would not take any risks on them, because we kept the money on deposit.

Mr. KELLEY. Was anybody present when Mr. Bolling paid you back the \$300 that you spoke of awhile ago?

Mr. SANDS. I do not think so.

Mr. KELLEY. What was the \$600 that he paid back in the presence of Mr. Fuller for?

Mr. SANDS. I do not recall any \$600. I do not remember it. No; I do not recall.

Mr. KELLEY. Did you pay him any money in the presence of Mr. Fuller?

Mr. SANDS. I do not recollect ever paying him any money in Mr. Fuller's presence in my life.

Mr. KELLEY. Had he borrowed any money from you that was just between you two?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And no third party ever saw you pay him any money?

Mr. SANDS. No, sir; never.

Mr. KELLEY. Who was Mr. Fuller?

Mr. SANDS. Mr. Fuller was the president of the Columbia Hotel Supply Co. at that time.

Mr. KELLEY. Did you know him?

Mr. SANDS. Yes, sir; I knew him very favorably at the time.

Mr. KELLEY. Was he with you and Mr. Bolling and the others at any time?

Mr. SANDS. No, sir.

Mr. KELLEY. He never was with you?

Mr. SANDS. What do you mean? In the room with me?

Mr. KELLEY. Anywhere?

Mr. SANDS. Well, I dare say he was, because he used to visit my room very frequently.

Mr. KELLEY. Mr. Fuller?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And Mr. Bolling might have been there when Mr. Fuller was there?

Mr. SANDS. Yes, sir; very likely.

Mr. KELLEY. But all the money you loaned to Mr. Bolling you loaned at the bank? Or at the house? Where did you loan him the money?

Mr. SANDS. Oh, I think it was at the house.

Mr. KELLEY. At your house or his house?

Mr. SANDS. At my house—either that or in bank, one or the other. I can not recall that. I just gave him a check, and I would not remember that.

Mr. KELLEY. You do not remember paying him any money in the presence of Mr. Fuller?

Mr. SANDS. I do not. I do not think it likely I ever did.

Mr. KELLEY. Was Mr. Fuller ever at your office?

Mr. SANDS. Yes, sir; every day or so.

Mr. KELLEY. How did it happen that he was at your office every day or so?

Mr. SANDS. Well, we were interested in a steel plant—

Mr. KELLEY. Where? At Connellsville?

Mr. SANDS. No; up near Chester. But Mr. Bolling was not interested with us.

Mr. KELLEY. Did Mr. Downey approach you at all as to the amount that you would exact from him for such influence as you would bring to bear?

Mr. SANDS. No.

Mr. KELLEY. He thought it was all right?

Mr. SANDS. Yes, sir.

Mr. KELLEY. But he knew you were going to use the money to corrupt officials of the Shipping Board, did he?

Mr. SANDS. I do not know that he did; I do not think he did.

Mr. KELLEY. What did he think you were going to use it for?

Mr. SANDS. Well, I don't know what he thought we were going to use it for.

Mr. KELLEY. But you must know what he thought you were going to use it for. He would not be paying you \$40,000 for nothing. What was the understanding?

Mr. SANDS. There was not any understanding.

Mr. KELLEY. Well, Mr. Sands, if Mr. Downey gave you notes for \$40,000, he must have thought you were going to do something for him for that money?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Well, what did he think you were going to do?

Mr. SANDS. I don't know; I don't know what he thought.

Mr. KELLEY. What did you tell him you were going to do?

Mr. SANDS. I did not tell him anything at all, because I had very little conversation with him regarding the amount of the fee until afterwards.

Mr. KELLEY. Did you have any conversation with him in the presence of Mr. Bolling?

Mr. SANDS. I don't think I ever did.

Mr. KELLEY. Did you tell him you were going to get the President's brother-in-law to help him get these contracts?

Mr. SANDS. I did not tell him that. Mr. Cranor very likely told him.

Mr. KELLEY. Mr. Cranor was one of the parties who was to benefit from this, was he?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Do you know whether Mr. Cranor did tell him that or not?

Mr. SANDS. I have no doubt he did; I think he did.

Mr. KELLEY. You think he did?

Mr. SANDS. Yes, sir.

Mr. KELLEY. You know he did?

Mr. SANDS. I am satisfied that he did. I did not hear him tell him, but I am satisfied that he did.

Mr. KELLEY. Was this a sort of conspiracy between you and Cranor to use Mr. Bolling in this transaction, and you to keep the money, all of it?

Mr. SANDS. No; it was not intended to do that.

Mr. KELLEY. Where did you and Mr. Bolling and the others first make the agreement that you were going to do this thing?

Mr. SANDS. Well, the agreement—the first thing was to get the contract. We tried our best to get the contract.

Mr. KELLEY. "We tried our best to get the contract"? What do you mean by that?

Mr. SANDS. I did all I could.

Mr. KELLEY. What did you do?

Mr. SANDS. I talked to Mr. Sisler and Mr. Bolling, and tried to get them to do what they could do.

Mr. KELLEY. What did they say? What did Mr. Sisler say?

Mr. SANDS. I can not repeat his exact words, but he thought he stood a favorable show of getting the contract.

Mr. KELLEY. Why, shouldn't he get it if he was a good shipbuilder?

Mr. SANDS. I don't know.

Mr. KELLEY. When the Government was just begging everybody to go into the business?

Mr. SANDS. That is right. They seemed to think that there was some trouble to do it, and they would pay for it. I think Mr. Cranor may have accentuated the troubles.

Mr. KELLEY. Did Mr. Bolling say that he would see the parties who were to let the contracts?

Mr. SANDS. No, sir. No.

Mr. KELLEY. And use his influence?

Mr. SANDS. No, sir.

Mr. KELLEY. Well, why were you to give him part of this money if he was not going to perform any service for you?

Mr. SANDS. Well, he and Mr. Sisler worked together——

Mr. KELLEY. What were they going to do? That is what I am getting at.

Mr. SANDS. I don't know.

Mr. KELLEY. Oh, well, you were not making an agreement for \$40,000 unless somebody put it up for certain services. You are a banker and a business man?

Mr. SANDS. Yes; I thought I was.

Mr. KELLEY. Now, here are two men in connection with the Shipping Board. They are not, however, connected with the letting of the contracts. You agreed to pay them one-fourth of this sum, \$10,000 a piece. Now, I ask you, what were they to do?

Mr. SANDS. Not \$10,000; \$6,250 a piece.

Mr. KELLEY. No; one-fourth of 40 is 10.

Mr. SANDS. No; but it was only \$6,250. The remaining \$15,000 was to go back to Mr. Cranor.

Mr. KELLEY. Oh, Mr. Cranor was to get \$15,000 out of it?

Mr. SANDS. Yes.

Mr. KELLEY. And the \$25,000 was to be divided equally between you three?

Mr. SANDS. Four.

Mr. KELLEY. Mr. Cranor was to have his share of that too?

Mr. SANDS. He was to get the other \$15,000.

Mr. KELLEY. What did Cranor have to do with getting these contracts?

Mr. SANDS. I don't know anything he had to do, except to keep at it and keep after it until they got it.

Mr. KELLEY. He was to be paid for that by check, of course?

Mr. SANDS. Yes, sir; supposed to be.

Mr. KELLEY. Now, what was your understanding with Mr. Bolling as to what he was to do?

Mr. SANDS. Mr. Bolling was not to do anything any further than to help with Mr. Sisler, and Mr. Sisler was—if everything was favorable to the company—he was to see if he could not get the contract through. That was all. He was simply with the company and knew what was going on.

Mr. KELLEY. What I am asking you is this: Did Mr. Bolling and Mr. Sisler—they were together, were they?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Did they agree to go and see the men making these contracts on behalf of the Government and help Downey to get a contract?

Mr. SANDS. Well, I suppose——

Mr. KELLEY. Do you know? What did they agree to do?

Mr. SANDS. No. I can not say, except this, that the contracts—all the applications for contracts came up through Mr. Sisler's office, and he could help them or stop them, I imagine. I do not know whether he could or not, but that is what I would imagine.

Mr. KELLEY. You were making an arrangement in which you were paying out a large sum of money for assistance?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And the natural presumption would be that you were hiring somebody that could help you?

Mr. SANDS. Yes, sir.

Mr. KELLEY. The point I want to get at is what Mr. Bolling was going to do; what he said he was going to do.

Mr. SANDS. He did not say he was going to do anything.

Mr. KELLEY. Well, did he do anything?

Mr. SANDS. Well, personally, I don't think he did do anything.

Mr. KELLEY. And did not get any money?

Mr. SANDS. No.

Mr. KELLEY. Well, what did you seek to blacken his reputation for by consenting to this statement in this document?

Mr. SANDS. Well, he got about \$1,800.

Mr. KELLEY. You said he borrowed that from you?

Mr. SANDS. Well, I put it as a loan on my books, because I thought it would be better as a loan until we got ready to pay it.

Mr. KELLEY. But it was really a part of this transaction, wasn't it?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Did you not tell Mr. Walsh it was not?

Mr. SANDS. No, sir; I did not say so.

Mr. KELLEY. Then, he really did get the \$1,800 out of the money that you obtained from the discount of these notes?

Mr. SANDS. The first proceeds; yes, sir.

Mr. KELLEY. The first note?

Mr. SANDS. Yes, sir.

Mr. KELLEY. You swear to that absolutely, that Mr. Bolling received \$1,800 out of the money you received from discounting the first note?

Mr. SANDS. Yes, sir.

Mr. KELLEY. That is clear, is it, in your mind?

Mr. SANDS. Yes, sir; that is, I charged it up as a loan to him, though.

Mr. KELLEY. I know, but I am asking if out of the proceeds of that first note you paid him \$1,800?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And you put it down as a loan because it would look better?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And not because it was any different?

Mr. SANDS. That is right.

Mr. KELLEY. Where were you when you paid him the \$1,800?

Mr. SANDS. I did not testify as to the exact amount. It was either \$1,900 or \$1,800; it was in one or two items. Why, I was either in my office or in my rooms, but I think very likely in my office.

Mr. KELLEY. Were the payments substantially at the same time?

Mr. SANDS. Yes; substantially at the same time.

Mr. KELLEY. Within a few days?

Mr. SANDS. I think so.

Mr. KELLEY. How many days?

Mr. SANDS. I could not say; possibly 30 days.

Mr. KELLEY. Why did you not pay it all to him at once—all that was coming to him?

Mr. SANDS. Why didn't I pay it all to him?

Mr. KELLEY. Yes; why didn't you pay it all to him at once?

Mr. SANDS. I don't know why. I paid out to the other people; as fast as I got the money I paid it out to them. I paid Cranor about \$9,000.

Mr. KELLEY. Did you pay Mr. Sisler his?

Mr. SANDS. I think I loaned him \$5,000, and I think I paid him \$5,000.

Mr. KELLEY. What do you mean by "loaned him five and paid him five"?

Mr. SANDS. I paid him five, around about five, in money, and then I loaned him——

Mr. KELLEY. Out of the proceeds of this first note?

Mr. SANDS. I don't know about the proceeds of the first note. I think I let him have about \$5,000 of the proceeds of the first note. Then I loaned him for his company, which he has not paid me, \$5,000 more. He paid me \$500 back on that.

Mr. KELLEY. You loaned him that personally or through the bank?

Mr. SANDS. No, personally; I did not make any loans through the bank?

Mr. KELLEY. Have you got a note for \$5,000 from him?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Mr. Sisler, at the time he received this \$5,000, was he secretary of the Shipping Board?

Mr. SANDS. Yes, sir.

Mr. KELLEY. You swear to that positively, that at the time you paid him \$5,000 out of the proceeds of these notes, one or the other of them, he was the secretary of the Shipping Board?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And it was paid to him for his influence with somebody in the Shipping Board to get the contract for Downey?

Mr. SANDS. Well, I can not say that.

Mr. KELLEY. What was it paid for, then?

Mr. SANDS. That is about it; yes, sir. We agreed that if we got the money he would get his, too.

Mr. KELLEY. What was he to do?

Mr. SANDS. I don't know what he did or what he was to do.

Mr. KELLEY. But you are a business man and you are trying to defraud the Government, in conjunction with others, and you were going to pay a part of this money to somebody, and you were going to pay it for some particular service. What did he agree to do?

Mr. SANDS. He agreed to help along the contracts, if he could. I don't know what he did. I don't know any more than that what he did.

Mr. KELLEY. And Mr. Bolling agreed to do the same thing?

Mr. SANDS. Yes, sir; but I don't think Mr. Bolling has very much influence with anyone to do anything, except to talk it over, possibly, with Mr. Sisler. I don't think he went out of his way to get it, other than that.

Mr. KELLEY. And outside of the \$1,800 that you paid him, he did not receive any other part of this money?

Mr. SANDS. No, sir.

Mr. KELLEY. And once again you swear positively that he did receive \$1,800 out of this fund?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And not as a loan? It was not a loan on your part?

Mr. SANDS. On my part it was a loan; I put it on the books as a loan, but it came out of that money, out of the discount.

Mr. KELLEY. I know, but if it came out of that money was it your money or his money?

Mr. SANDS. It was practically his money.

Mr. KELLEY. Then it was not a loan in fact?

Mr. SANDS. It was not a loan.

Mr. KELLEY. The money you turned over to him was not your money, fraudulently obtained, but it was his share of the money that you had fraudulently obtained?

Mr. SANDS. Yes, sir.

Mr. KELLEY. That is, a part of his share?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Nobody was present, of course, when you paid him this \$1,800 in the two payments?

Mr. SANDS. I do not recall anybody being present; no, sir. I will say no.

Mr. KELLEY. Do you know when it was?

Mr. SANDS. I can not say.

Mr. KELLEY. If this note was discounted at the bank on June 7, 1918, it would be somewhere near that time, would it?

Mr. SANDS. It would be very near that date. Of course, if I can get my books I can tell.

Mr. KELLEY. And within a few days of June 7, 1918, you swear you paid Mr. Bolling, in two payments, a sum aggregating either \$1,800 or \$1,900?

Mr. SANDS. Yes, sir; but I can not say whether it was in two payments or one payment. I could not say that.

Mr. KELLEY. Your books will show that, which it was?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And show the date?

Mr. SANDS. And show the date.

The CHAIRMAN. Where are your books, Mr. Sands?

Mr. SANDS. My books are in Washington.

The CHAIRMAN. Where is this note?

Mr. SANDS. What note—that is here.

The CHAIRMAN. That Mr. Sisler signed.

Mr. SANDS. I have that in New York.

The CHAIRMAN. Have you ever had it discounted?

Mr. SANDS. No, sir.

The CHAIRMAN. Why?

Mr. SANDS. Well, because I did not know where to discount it, to tell you the truth.

The CHAIRMAN. Where do you live in Washington?

Mr. SANDS. Well, I lived at the Willard Hotel during the war.

The CHAIRMAN. I thought you said that you had some of these conferences at your house?

Mr. SANDS. Well, I meant at my rooms.

The CHAIRMAN. Did Mr. Bolling live at the Willard Hotel?

Mr. SANDS. No.

The CHAIRMAN. You said he lived next door to you.

Mr. SANDS. He did live next door to me, but I moved to the Willard Hotel after we got into the war.

The CHAIRMAN. Oh, yes. Well, did it ever occur to you if Mr. Bolling was a man of such great influence and was exercising great influence in matters there, he would be filling a position as a mere clerk in the Shipping Board, that he would not hold some place of great responsibility?

Mr. SANDS. No.

The CHAIRMAN. That never occurred to you?

Mr. SANDS. He got the position of treasurer afterwards, you know.

The CHAIRMAN. When was the indictment found against you?

Mr. SANDS. I think it was September 30, 1918.

The CHAIRMAN. Is it not a fact that after that you and Mr. Bolling had no further dealings?

Mr. SANDS. No financial dealings?

The CHAIRMAN. Any dealings?

Mr. SANDS. We saw each other frequently. I do not think we had any dealings—any business dealings.

The CHAIRMAN. Can you produce this note to the committee that Mr. Sisler signed?

Mr. SANDS. Yes, sir.

The CHAIRMAN. For \$5,000?

Mr. SANDS. I said \$5,000; I think it is either \$5,000 or \$4,500. There is \$4,500 due on it; that is my recollection. He paid \$500.

The CHAIRMAN. I think the committee would like to see that note, Mr. Sands. We will give you an opportunity later to present it to the committee.

Mr. SANDS. Very well.

Mr. KELLEY. Now, the fact that Mr. Bolling refused to help you with the district attorney at Washington—has that any bearing on your bringing him into this case?

Mr. SANDS. No, sir; I really regret very much bringing him in, because, if I may use the expression, I am really devoted to him. I hated above everything to bring him in, more than I can say. I would rather have it against me than against him. I am very fond of him to-day.

Mr. KELLEY. Who is at fault for his being in this whole matter, if he is not?

Mr. SANDS. Well, I suppose —

Mr. KELLEY. Mr. Sands?

Mr. SANDS. Well, may be Mr. Sands. I can not say that I am at fault, but still we were very intimate, and if you call it a fault that way, I will take the fault; yes, sir.

Mr. KELLEY. Of course, he is a man of about your age?

Mr. SANDS. No; thank you very much; I am 54. He is about 40.

Mr. KELLEY. Mr. Sisler, as I understand it, Mr. Chairman, was the secretary of the Fleet Corporation, and Mr. Bolling was an employee in the Fleet Corporation?

The CHAIRMAN. In the treasurer's office.

Mr. KELLEY. And now is treasurer of the Fleet Corporation.

The CHAIRMAN. Did it ever occur to you, Mr. Sands, that the time for you to see your lawyer was before you said anything upon which an affidavit was to be drawn?

Mr. SANDS. Yes, sir; it occurred to me, but I was too frank with them, I imagine, to tell them the whole facts about the thing; but I really was induced to do it because——

The CHAIRMAN. Did you tell your lawyer what you had told Mr. McCann and Mr. Schwarzkopf?

Mr. SANDS. Yes, sir.

The CHAIRMAN. You were not under any compulsion when they came up there and asked you to tell them about this matter?

Mr. SANDS. No; but I had been so worried, one thing after another coming after me, and they seemed to know it already anyway, and so I told them.

The CHAIRMAN. And then you would not make affidavit to it?

Mr. SANDS. I did not want to make an affidavit; no.

The CHAIRMAN. Did you ask your lawyer whether you should come before this committee and tell the story?

Mr. SANDS. I asked him, but, of course, he said not to come unless they summoned me. I would have come down there if they had summoned me.

The CHAIRMAN. Did he tell you after you were summoned to come and tell your story?

Mr. SANDS. No; I have not seen him since I have been here. I thought I had to come.

The CHAIRMAN. The committee will suspend until Friday of next week, at 10 o'clock. The witnesses under subpoena will please consider themselves under continuing subpoena until Friday, November 26, at 10 o'clock, in this room, Room 401, Federal Building.

(Thereupon, at 12.15 o'clock p. m., the committee adjourned to meet at 10 a. m. on Friday, Nov. 26, 1920.)

SELECT COMMITTEE ON UNITED STATES
SHIPPING BOARD OPERATIONS,
HOUSE OF REPRESENTATIVES,
New York, November 26, 1920.

The committee met in room 401, United States Post Office Building, at 10 o'clock a. m., Hon. Joseph Walsh (chairman) presiding.

Present also: Hon. Patrick H. Kelley, member of committee.

The CHAIRMAN. The committee will resume. Mr. Malmar will take the stand.

**TESTIMONY OF MR. EDWARD S. MALMAR, CASHIER CORN
EXCHANGE BANK, NEW YORK CITY.**

The witness was duly sworn by the chairman.

The CHAIRMAN. Mr. Malmar, what is your business or profession?

Mr. MALMAR. I am cashier of the Corn Exchange Bank, New York.

The CHAIRMAN. I hand you a statement subscribed and sworn to on the 9th day of November, 1920, before H. E. Haynes, a notary public [handing paper to witness]. Mr. Malmar, may I ask you if that is a statement prepared by you and sworn to?

Mr. MALMAR. Yes, sir.

The CHAIRMAN. This is a statement under date of November 9, addressed to me, containing the following [reading]:

On September 16, 1918, we received through the clearances an item for \$10,300, which was charged against the account of Wallace Downey, in our terminal branch. Inasmuch as we do not keep the clearing house lists more than one year, we are not able to state what member of the New York Clearing House charged this item against us.

On March 17, 1919, we received through the exchanges an item for \$10,600, which was drawn by Wallace Downey and returned by us to the Hanover National Bank of New York City "short." On March 18, 1919, we charged the account of Wallace Downey \$10,606.40 and paid same by our manager's check to the Hanover National Bank, which covered the item returned on the 17th, with fees and additional interest.

Very truly, yours.

E. S. MALMAR, *Cashier.*

Do you recall these two transactions that you have set forth here, Mr. Malmar?

Mr. MALMAR. Well, they were all handled at our branch. I am not at the branch. I got the information through the management of the branch.

The CHAIRMAN. But these are matters of record in your branch bank?

Mr. MALMAR. Yes.

The CHAIRMAN. And do you know anything further with relation to these two transactions than what is contained in these affidavits?

Mr. MALMAR. I do not.

The CHAIRMAN. Has anyone else representing this committee, the Treasury Department, the Shipping Board, the Department of Justice, the Federal Trade Commission, or any other department of the United States Government, conferred with you or made inquiry of you with reference to these two transactions?

Mr. MALMAR. They have not.

Mr. KELLEY. Is the Downey Shipbuilding Corporation a customer of yours?

Mr. MALMAR. I do not think they are at present, but I could not answer without looking up our records.

Mr. KELLEY. Were they at the time these transactions were put through?

Mr. MALMAR. That I can not say positively; I dislike to make a statement unless I verify it, Mr. Kelley.

Mr. KELLEY. Do you know whether or not at any time during the last two years they have been depositors of your bank?

Mr. MALMAR. I know they have been depositors at our bank, but I can not say as to the date.

Mr. KELLEY. Do they do business with the main bank or with the branch bank?

Mr. MALMAR. I think the Downey Shipbuilding Co. did business with the main bank.

Mr. KELLEY. With the main bank?

Mr. MALMAR. I think so. They are a big institution.

Mr. KELLEY. Yes, I know they are. Do you know Mr. Wallace Downey, personally?

Mr. MALMAR. I have met him. I do not know—I am not sure that I could identify him to-day, but I know I was introduced to him

some time ago. I think I could identify Mr. Downey at the present time.

Mr. KELLEY. Were you familiar with the financial responsibility of the Downey Shipbuilding Corporation in 1917?

Mr. MALMAR. No; not at all.

Mr. KELLEY. Would your bank be in possession of facts relative to their financial standing at that time if they were customers of yours?

Mr. MALMAR. Very likely; yes, sir.

Mr. KELLEY. You do not know of your own knowledge about their financial standing at the time that these notes were given?

Mr. MALMAR. I do not.

Mr. KELLEY. How long have you been in the banking business, Mr. Malmar?

Mr. MALMAR. Pretty nearly 32 years.

Mr. KELLEY. Do you recollect where these notes were payable?

Mr. MALMAR. At our terminal branch.

Mr. KELLEY. It was set out in the notes that they were payable to the Corn Exchange Bank?

Mr. MALMAR. Yes; they must have been payable to the Corn Exchange, as the Corn Exchange sent them to our bank.

Mr. KELLEY. The chances are that would indicate Mr. Downey was doing business at the bank at that time, would it not?

Mr. MALMAR. Oh, yes.

Mr. KELLEY. Can you examine the books of your bank and be prepared to answer questions relative to the business transactions of the Downey company at about that time?

Mr. MALMAR. If it is the wish of the committee.

Mr. KELLEY. Or subsequently?

Mr. MALMAR. Yes, sir.

Mr. KELLEY. You do not know whether they made loans at your bank or not, to finance their shipbuilding projects?

Mr. MALMAR. No; that did not come in my department at all.

Mr. KELLEY. You are the cashier?

Mr. MALMAR. Yes, sir.

Mr. KELLEY. And who would know about that?

Mr. MALMAR. Well, the credit department of the bank.

Mr. KELLEY. We would have to subpoena somebody else to get that information, or could you get it from the——

Mr. MALMAR (interposing). If you served it on the bank, the information would be supplied; I do not know whether I would be the one.

Mr. KELLEY. It will be supplied by the proper official?

Mr. MALMAR. Oh, yes.

Mr. KELLEY. Is your bank a national bank or a State bank?

Mr. MALMAR. A State bank.

Mr. KELLEY. Are you familiar with the national banking laws?

Mr. MALMAR. I am not very familiar with them; no.

Mr. KELLEY. Under the laws of the State of New York is it permissible for a banking official to accept a commission on a loan made from the bank?

Mr. MALMAR. No, sir.

Mr. KELLEY. Do you know whether that is true of the Federal law?

Mr. MALMAR. No; I do not.

Mr. KELLEY. Will you be prepared this afternoon, or at the call of the committee, to give to the committee information relative to the business transactions of the Downey company with your bank at about that time; and also as to the financial standing of Wallace Downey in your bank, and also of his company?

Mr. MALMAR. Well, if you can tell me just exactly what you want in the way of transactions—I do not know what period you want to cover.

Mr. KELLEY. And give amounts and deposits.

Mr. KALMAR. For what time?

Mr. KELLEY. I suppose from March 1, we will say, 1917, until March 17, 1919.

Mr. MALMAR. And just what is it the committee would want?

Mr. KELLEY. The loans made by your bank to either Mr. Downey of the Downey Shipbuilding Corporation, and the general state of their deposits during that time, either at the main bank or at the branch bank, and also a statement as to the financial responsibility of Mr. Downey and his corporation as of that period?

Mr. MALMAR. May I ask you a question, Mr. Kelley, to be sure I get it right?

Mr. KELLEY. Yes.

Mr. MALMAR. The general state of the deposits—I want to be clear just what you want there.

Mr. KELLEY. Suppose we start, then, with the balance on March 1, 1917, either Mr. Downey's account or the shipbuilding company, or both, and the balance month by month from that time on, as of the end of each month, up until March 18, 1919; and also any notes that were charged against the account during that period.

Mr. MALMAR. Well, may I say, in explanation, if the notes came from the outside our ledger will not show whether it is a note or not. The ledger does not designate the character of the charge—it might be a check or it might be a note.

Mr. KELLEY. How could you tell these were notes?

Mr. MALMAR. Well, I got that information through Mr. Fisher; and then I verified the entries on our books, and the fact that one of them was returned gave us the information in regard to that.

Mr. KELLEY. What does this mean in your statement here that "an item for \$10,600, which was drawn by Wallace Downey and returned by us to the Hanover National Bank of New York City 'short' "?

Mr. MALMAR. That means that this item was presented to the clearing house, and not being good, we made an entry in a book which we have for all returned items—returned for any causes whatever; we have to make a special record of them, and that shows on that return-item book that day.

Mr. KELLEY. It meant he did not have money enough in his account in your bank to cover that charge?

Mr. MALMAR. That is correct.

Mr. KELLEY. Do you know how much it was short on that date?

Mr. MALMAR. No; I have not looked at the ledger.

The CHAIRMAN. I think that is all, Mr. Malmar.

Mr. MALMAR. Mr. Kelley, it is an awfully short time to cover two years. I was wondering whether it would be possible—

Mr. KELLEY (interposing). Early next week would do just as well.

Mr. MALMAR. Well, whenever you say.

Mr. KELLEY. I will say Monday of next week.

Mr. MALMAR. Monday, here?

Mr. KELLEY. Yes.

Mr. MALMAR. All right.

The CHAIRMAN. The affidavit which Mr. Malmar has identified will be put into the record.

(The affidavit referred to is in words and figures as follows:)

THE CORN EXCHANGE BANK,
New York, November 9, 1920.

Hon. JOSEPH WALSH,

*Chairman, Select Committee on Investigation of U. S. Shipping
Board Operations, Hotel Pennsylvania, New York.*

Attention of Mr. A. M. Fisher.

DEAR SIR: In compliance with the request of Mr. Alexander M. Fisher, we herewith give you the following information, viz: On September 16, 1918, we received through the clearances an item for \$10,300, which was charged against the account of Wallace Downey, in our terminal branch. Inasmuch as we do not keep the clearing house lists more than one year, we are not able to state what member of the New York Clearing House charged this item against us.

On March 17, 1919, we received through the exchanges an item for \$10,600, which was drawn by Wallace Downey and returned by us to the Hanover National Bank of New York City "short." On March 18, 1919, we charged the account of Wallace Downey, \$10,606.40, and paid same by our manager's check to the Hanover National Bank, which covered the item returned on the 17th, with fees and additional interest.

Very truly, yours,

E. S. MALMAR, *Cashier.*

Subscribed and sworn to before me this 9th day of November, 1920.

H. E. HAYNES, *Notary Public.*

Kings Co. No. 364; Certificate filed in New York County No. 116; Kings County Register's No. 1054; New York County Register's No. 1232; Bronx County Clerk's No. 7; Bronx County Register's No. 2114.

The CHAIRMAN. If you can let us know Monday, Mr. Malmar, we will endeavor to call you so that you can be put right on and immediately excused, so as not to take any more of your time than is necessary.

Mr. MALMAR. Thank you, Mr. Chairman.

**TESTIMONY OF MR. JACOB NIEMAN, ASSISTANT CASHIER,
HANOVER NATIONAL BANK, NEW YORK CITY.**

The witness was duly sworn by the chairman.

The CHAIRMAN. Your name is?

Mr. NIEMAN. My name is Jacob Nieman.

The CHAIRMAN. You are connected with the Hanover National Bank? In what capacity?

Mr. NIEMAN. Assistant cashier.

The CHAIRMAN. I hand you a statement subscribed and sworn to by you on October 20, before Mr. F. A. Beck, notary public, and ask you if that is your signature, and if you signed that document [handing paper to witness]?

Mr. NIEMAN. Yes, sir; it is.

The CHAIRMAN. It is dated October 20, 1920, and contains the following [reading].

According to our records, we received from the Takoma Park Bank for collection and credit to their account in their letter dated September 10, 1918, note Wallace Downey, \$10,000, payable at the Corn Exchange Bank, Terminal Branch, 50 Church Street, New York, which was duly paid on presentation with interest—in all \$10,300.

The second note came in their letter of February 19, 1919, due March 15, 1919. Our records show this note was protested for nonpayment at maturity and was subsequently paid March 18 with full interest to date of payment, in all \$10,605.

The records of your bank show those facts, do they, Mr. Nieman?

Mr. NIEMAN. Yes, sir.

The CHAIRMAN. Do you know anything further in connection with those transactions than what appears upon your records?

Mr. NIEMAN. No, sir; I do not.

The CHAIRMAN. Has anybody representing the Department of Justice, the Treasury Department, the Shipping Board, the Federal Trade Commission, this committee—with the exception of Mr. Fisher—or any other branch of the Federal Government, seen you, conferred with you or made inquiries of you with reference to these transactions?

Mr. NIEMAN. No sir.

The CHAIRMAN. Or any transactions of the Downey Shipbuilding Corporation or Wallace Downey?

Mr. NIEMAN. No, sir.

Mr. KELLEY. Was the Downey Shipbuilding Corporation a customer of your bank?

Mr. NIEMAN. No, sir.

Mr. KELLEY. Or Mr. Wallace Downey?

Mr. NIEMAN. No, sir.

Mr. KELLEY. Do you know Mr. Downey personally?

Mr. NIEMAN. No, sir.

Mr. KELLEY. And you simply acted in the capacity of an agent for the Takoma Bank, Washington, in this transaction?

Mr. NIEMAN. Yes, sir.

Mr. KELLEY. And that is all you know about it?

Mr. NIEMAN. That is all.

The CHAIRMAN. I think that is all, Mr. Nieman; thank you, sir.

The sworn statement of Mr. Nieman, which he has identified, will be made a part of the record.

(The affidavit referred to is in words and figures as follows:)

THE HANOVER NATIONAL BANK,
New York, October 20, 1920.

HON. JOSEPH WALSH,

Room 251, House Office Building, Washington, D. C.

SIR: On Monday the 18th instant your personal representative called here concerning certain notes made by Wallace Downey to the order of Tucker K. Sands, which the Takoma Park Bank of Takoma Park forwarded to this bank for collection under dates of September 10, 1918, and February 19, 1919.

According to our records, we received from the Takoma Park Bank for collection and credit to their account in their letter dated September 10, 1918, note Wallace Downey, \$10,000, payable at the Corn Exchange Bank, Terminal Branch, 50 Church Street, New York, which was duly paid on presentation with interest—in all \$10,300.

The second note came in their letter of February 19, 1919, due March 15, 1919. Our records show this note was protested for nonpayment at maturity and was subsequently paid March 18, with full interest to date of payment; in all, \$10,605.

Yours, very truly,

J. NIEMAN,
Assistant Cashier.

STATE, COUNTY, AND CITY OF NEW YORK, ss:

Subscribed and sworn to before me this 20th day of October, 1920.

F. A. BECK,
Notary Public, Kings County.

Certificate filed New York County.

TESTIMONY OF MR. TUCKER K. SANDS—Resumed.

The CHAIRMAN. Mr. Sands, did you have any connection or financial interest in any contractor, or partnership, corporation, or concern seeking business with the Shipping Board?

Mr. SANDS. Yes; I am treasurer of a shipbuilding concern.

The CHAIRMAN. Which one?

Mr. SANDS. The one at Quantico.

The CHAIRMAN. What is the name of that company?

Mr. SANDS. I can not remember my own company [laughing]; I can not think of the name of that company, somehow or other.

The CHAIRMAN. How long have you been treasurer of it?

Mr. SANDS. I was treasurer from its starting.

The CHAIRMAN. When did it start?

Mr. SANDS. I think it was 1917, in May. In the meantime, I can not think of the name.

The CHAIRMAN. Did it get a contract from the Shipping Board?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Who secured that contract?

Mr. SANDS. Our president.

The CHAIRMAN. Who is the president?

Mr. SANDS. George R. Collins.

The CHAIRMAN. When was the contract secured, do you know?

Mr. SANDS. Well, it was about 1917, in the early part—the spring, March or April.

The CHAIRMAN. Might that have been the Atlantic Lifeboat Co.?

Mr. SANDS. No, sir. I was trying to think of the name—no. I can not think of the name of my own company.

The CHAIRMAN. Was it the General Shipbuilding Co.?

Mr. SANDS. No, sir. I was also treasurer of the General Shipbuilding Co., too, but that only built for the Navy Department. [After a pause.] Potomac Shipbuilding Co.

The CHAIRMAN. Are you treasurer of that company now?

Mr. SANDS. Yes, sir.

The CHAIRMAN. And have been since it started?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Do you know how many ships they constructed for the Shipping Board?

Mr. SANDS. We did not build any.

The CHAIRMAN. Did you intercede with anybody in order to secure a contract for that concern?

Mr. SANDS. No, sir.

The CHAIRMAN. Did anybody intercede with you to assist in getting a contract with that concern?

Mr. SANDS. No, sir.

The CHAIRMAN. Did your bank finance the General Shipping Co.?

Mr. SANDS. No—the General Shipbuilding; you mean the General or the Potomac?

The CHAIRMAN. The General?

Mr. SANDS. No.

The CHAIRMAN. Were you asked to help finance them?

Mr. SANDS. The bank—never.

The CHAIRMAN. Were you asked yourself?

Mr. SANDS. Well, I was treasurer of that company also, and I did finance it.

The CHAIRMAN. What is the Aero Co.?

Mr. SANDS. That was the name of the General Shipbuilding—the General Shipbuilding & Aero Co.; that is the name of the company.

The CHAIRMAN. They had a plant at Alexandria?

Mr. SANDS. Yes, sir.

The CHAIRMAN. And were entirely without funds?

Mr. SANDS. No—we had three—three of us—three men, myself and two others, we underwrote the whole proposition and loaned them as high as \$140,000.

The CHAIRMAN. Well, did you at any time agree to purchase \$200,000 worth of the stock at 50 cents on the dollar, granting the parties an option to purchase them back at par—you were the people who financed it?

Mr. SANDS. We practically made that arrangement.

The CHAIRMAN. There was an overdraft in connection with the financial dealings of this company?

Mr. SANDS. Yes.

The CHAIRMAN. Was it afterwards made good?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did you benefit in any way through the financial transactions of this company?

Mr. SANDS. I did not; I lost money on it.

The CHAIRMAN. Did they borrow any money from the bank with which you were connected?

Mr. SANDS. No, sir.

The CHAIRMAN. Now, just who is Mr. Cranor?

Mr. SANDS. Well, he lives here in New York now. He is a man whom I have known for, I guess, 15 years—15 to 20 years. He is a sort of a promoter, and during the war was very active in war activities. He is a broker and a promoter.

The CHAIRMAN. Did he come to see you in behalf of any other concern outside of the Downey Shipbuilding Corporation?

Mr. SANDS. I do not recall that he did; I do not think he did, although I saw him very frequently during the early period of the war. I do not think he did; I do not recall him——

The CHAIRMAN (interposing). Did anybody else come to see you in behalf of contracts for any other shipbuilding concern?

Mr. SANDS. No.

The CHAIRMAN. Do you know how he happened to pick you out to help get a contract for the Downey shipbuilding concern?

Mr. SANDS. He came to see me because I was pretty well acquainted with him, and we were all trying to get contracts for the building of ships, and he knew that I knew some of the people of the Shipping Board; that is, not of the Shipping Board, but connected with the shipping company. Of course, I knew none of the directors or officers of the Shipping Board.

The CHAIRMAN. Well, how was it that he had this knowledge, that you knew shipbuilders and shipping companies, and might be of assistance in getting a contract? How did Mr. Cranor happen to have that knowledge?

Mr. SANDS. I suppose from just general conversation; he knew that I knew some of the men connected with the Shipping Board. I did

not know any of the higher officials at that time. We were fairly intimate; I lived at the same hotel with him.

The CHAIRMAN. You stated, I think, previously, Mr. Sands, that you, Mr. Cranor, Mr. Bolling, and Mr. Wallace Downey were at one time present when the subject of a contract with the shipbuilding company, the Downey Shipbuilding Corporation, was discussed?

Mr. SANDS. I do not think I stated that.

The CHAIRMAN. You did not state that?

Mr. SANDS. I do not think I stated that; no.

The CHAIRMAN. Well, if you did not state it, were those gentlemen ever present?

Mr. SANDS. I do not recall.

The CHAIRMAN. When that matter was discussed?

Mr. SANDS. I do not recall. In fact, my recollection is, that I did not meet Mr. Downey until after he had gotten the contract; that is my recollection.

The CHAIRMAN. Did Mr. Downey secure a loan of \$100,000 from the Commercial National Bank?

Mr. SANDS. One of his companies did; yes.

The CHAIRMAN. Was that the bank you were connected with?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Is that the transaction which is involved in the pending indictment against you?

Mr. SANDS. No, sir.

The CHAIRMAN. It has nothing to do with the charges?

Mr. SANDS. It has nothing to do with it. It is the charge on the overdraft of the General Shipbuilding Co.

The CHAIRMAN. With whom did Mr. Downey negotiate that loan?

Mr. SANDS. He negotiated with the bank, and——

The CHAIRMAN. With whom?

Mr. SANDS. Well, I was the acting officer of the bank, and I brought it under consideration and they passed on it and let him have it. Mr. Downey, in the meanwhile, had placed a deposit—he originally said he would give us \$500,000, but when we got the deposit it was \$100,000, and he kept it there some time.

The CHAIRMAN. Who were the members of this committee, Mr. Sands?

Mr. SANDS. Well, I could not say now who are the members of the committee, because I don't remember; but we had a regular meeting of committees every day.

The CHAIRMAN. Did you have a regular standing committee?

Mr. SANDS. We had a regular standing committee at that time; yes, sir.

The CHAIRMAN. And was it this standing committee that passed upon this transaction?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Just when was this that you referred it to this committee?

Mr. SANDS. I referred it to the committee as soon as the application was made. I can not recall the dates, because I have nothing to recall them by.

The CHAIRMAN. How many times did you talk with Mr. Wallace Downey about this loan?

Mr. SANDS. I don't remember now. I talked to him a number of times about finances for the company. I talked to him a number of times about it, but my impression is that I did not meet him; I did not meet Mr. Downey until after he had gotten the contract. That is my impression. I met Mr. Cranor, who represented him, but——

The CHAIRMAN. You talked with Mr. Cranor?

Mr. SANDS. Yes, sir; but I do not think I met Mr. Downey until after he had gotten the contract. I do not think I had.

The CHAIRMAN. Well, now, did Mr. Cranor ask you to assist in getting this loan?

Mr. SANDS. No.

The CHAIRMAN. Did he talk with you about it?

Mr. SANDS. No.

The CHAIRMAN. Did you know anything about the financial responsibility or the condition of the finances of the Downey Shipbuilding Corporation before they got the contract?

Mr. SANDS. Before they got the contract? Yes, I looked them up, and looked into the mercantile reports and saw their records, and I thought it would be all right.

The CHAIRMAN. You thought they were in sound condition financially?

Mr. SANDS. Yes, sir; I did.

The CHAIRMAN. And when you had this talk with Mr. Downey about this loan were you promised any commission or premium or fee or bonus if you could get that loan for him?

Mr. SANDS. Mr. Downey talked to me along the line, after he had gotten the contract, that he wanted—that he had not paid anything, he wanted to pay a commission for financing.

The CHAIRMAN. For financing?

Mr. SANDS. For financing. He said he wanted to pay a commission for financing.

The CHAIRMAN. To whom?

Mr. SANDS. Well, why, to pay it to me; he wanted to pay it that way; that it was financing. I told him, although I had financed a number of propositions outside the bank, I said, "I can not ask the bank for any money under any promise from you, because I would not do that; I can not do it. I have not the right to do it." And he said, "Well, it is all right, you know, to pay for an underwriting," and I said, "Well, I can not have it that way, anyway. I can not have it that way." I said, "I will bring your proposition to the bank, and we will doubtless lend you money." I did afterwards try to help him when he wanted help.

The CHAIRMAN. Have you received commissions for financing other propositions?

Mr. SANDS. No.

The CHAIRMAN. Never have received any?

Mr. SANDS. Well, I don't know that I have. I think I have, yes; but not in the bank.

The CHAIRMAN. Not in the bank?

Mr. SANDS. No, I never borrowed; no concern in which I ever got any commission——

The CHAIRMAN. Did you personally loan the Downey Shipbuilding Corporation any money?

Mr. SANDS. No.

The CHAIRMAN. Well, can you state how this figure of \$40,000, which you state was agreed upon to be distributed for securing this contract, was arrived at? Was it a percentage of the contract price, or how did Mr. Downey or Mr. Cranor or anybody who was involved in this situation which you say developed, come to fix \$40,000 as the price to be paid?

Mr. SANDS. I do not know. I did not stipulate it myself.

The CHAIRMAN. You did not stipulate it?

Mr. SANDS. I did not stipulate it. I really was the—when the payment was made to me it was rather a surprise, that I should be the one to distribute it, because I did not think that I was active enough; but for some reason they preferred to make me the trustee for it.

The CHAIRMAN. You say you do not think you were active enough.

Mr. SANDS. I did not think that I was.

The CHAIRMAN. You were the one man who was to see the Shipping Board officials, were you not, Mr. Sisler and Mr. Bolling?

Mr. SANDS. I introduced them, yes. I introduced Mr. Cranor to both those gentlemen.

The CHAIRMAN. And you were the man to use your influence with them?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Well, that is some activity in a transaction of that sort, was it not?

Mr. SANDS. Well, some activity; yes, sir.

The CHAIRMAN. Well, who was more active than you?

Mr. SANDS. Well, I suppose that is about all the activity there was. I do not know what activity they used; I did not know anything about it. That is all that we did; that is all that I did.

The CHAIRMAN. Well, then, why were you surprised? You were the man who knew Mr. Bolling and who knew Mr. Sisler, who provided the rooms for the conferences, whose acquaintance with these Shipping Board officials they apparently relied upon, and who introduced the parties to Mr. Bolling, and later a contract was secured. Why were you surprised that you should be chosen to apportion this money after the agreement as to its distribution had been made?

Mr. SANDS. Well, I do not know why they settled upon me as doing it; anyone of them might have done it.

The CHAIRMAN. Anyone might have done it, but you were one of the prime movers in it, were you not, Mr. Sands?

Mr. SANDS. Well, I was, as it happened; yes, sir.

The CHAIRMAN. And if somebody else had undertaken the division of this money you would have been a little bit disappointed, would you not?

Mr. SANDS. I do not know that I would.

The CHAIRMAN. Have you got the note which Mr. Sisler signed with you this morning?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Would you let me see that, please?

(The paper was produced by Mr. Sands.)

The CHAIRMAN. Why, he only indorsed it, did he not?

Mr. SANDS. Oh, yes; he only indorsed it. I did not say he signed it.

The CHAIRMAN. I understood you to say Saturday that Mr. Sisler gave you a note, his note, for \$5,000?

Mr. SANDS. Well, if I said that I said it under a misapprehension. I do not remember, but that is the note I referred to, and I do not recall whether that was not a renewal.

The CHAIRMAN. This may have been a renewal?

Mr. SANDS. Yes.

The CHAIRMAN. Will you look at that, and the indorsement on the back, and state whether you think that was a renewal?

Mr. SANDS. I can not say, because there is nothing to indicate it on here.

The CHAIRMAN. There had been a payment made on account, had there not?

Mr. SANDS. Yes, sir; a payment made on July 31.

The CHAIRMAN. Who is the maker of that note?

Mr. SANDS. A man named Gray, who was connected with the company which I mentioned, the——

The CHAIRMAN. The Potomac?

Mr. SANDS. No; the Sand & Gravel Co. He was connected with the Sand & Gravel Co.; this money went into the Sand & Gravel office.

The CHAIRMAN. What Sand & Gravel Co.?

Mr. SANDS. The one that Mr. Sisler had.

The CHAIRMAN. Mr. Sisler had a Sand & Gravel Co.?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Well, where was that?

Mr. SANDS. That was near Ladensburg.

The CHAIRMAN. Ladensburg, Md.?

Mr. SANDS. Yes, sir; not very far from Washington.

The CHAIRMAN. Was this Sand & Gravel Co. a depositor in the bank that you were connected with?

Mr. SANDS. I do not remember whether they were or not. They may have—I do not know whether they had an account.

The CHAIRMAN. Who is Mr. H. D. Mephram?

Mr. SANDS. Why, he was one of Mr. Sisler's friends also interested in that enterprise.

The CHAIRMAN. This \$5,000, then, had nothing to do with this payment on account of securing a contract for the Downey Shipbuilding Corporation, did it?

Mr. SANDS. Not directly, except that he was entitled to his money, and I let him have this money on account, that is all.

The CHAIRMAN. Let who have it?

Mr. SANDS. Mr. Sisler.

The CHAIRMAN. You let Mr. Sisler have it?

Mr. SANDS. Yes, sir.

The CHAIRMAN. And Mr. Gray signed the note?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Well, Mr. Mephram is a member of this Sand & Gravel Co.?

Mr. SANDS. He was at that time, he and Mr. Gray both.

The CHAIRMAN. Mr. Gray, another member of that firm?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Signed a note for \$5,000, payable to Mr. Mephram, of the same firm?

Mr. SANDS. Yes, sir.

The CHAIRMAN. And Mr. Mephram indorsed it, and on July 31, 1918, there had been a payment of \$575?

Mr. SANDS. Yes, sir.

The CHAIRMAN. And Mr. Sisler indorsed the note?

Mr. SANDS. Yes, sir.

The CHAIRMAN. What is there about that paper that connects Mr. Sisler up with the awarding of this contract to the Downey Shipbuilding Corporation?

Mr. SANDS. Nothing, except that he was entitled to his proportion, and I charged it up to him.

The CHAIRMAN. Charged it up to him where?

Mr. SANDS. On my own books.

The CHAIRMAN. Have you got your books?

Mr. SANDS. I have not.

The CHAIRMAN. Where are they?

Mr. SANDS. In Washington.

The CHAIRMAN. With whom?

Mr. SANDS. Well, they are just in storage there; I have not got them here.

The CHAIRMAN. Did the Sand & Gravel Co. do any business with the Shipping Board?

Mr. SANDS. Not at all, not that I know of. I do not know that they did.

The CHAIRMAN. With any shipbuilder that was under contract with the board?

Mr. SANDS. I do not suppose so.

The CHAIRMAN. As far as this note goes, there is not a word or a mark upon it that shows that Mr. Sisler was involved in getting a contract from the Shipping Board for the Downey Shipbuilding Corporation, is there?

Mr. SANDS. No, sir.

The CHAIRMAN. Were you interested in the lifeboat business?

Mr. SANDS. No, sir.

The CHAIRMAN. Or in the anchor business?

Mr. SANDS. I was interested in the anchor business; yes, sir.

The CHAIRMAN. Where was that?

Mr. SANDS. That was at Morton, Pa.

The CHAIRMAN. Did they furnish the Shipping Board with anchors?

Mr. SANDS. They contracted to do it, but they did not get in in time; the company was not in operation until after the armistice was declared.

The CHAIRMAN. Have you any objection to that note being put into the record, Mr. Sands, in connection with your testimony?

Mr. SANDS. No.

The CHAIRMAN (reading): "Washington, D. C., May 1, 1918." In the right-hand margin the figures "\$5,000." The word "due," and then, in pencil below, "7/30." I suppose that is July 30?

Mr. SANDS. Yes.

The CHAIRMAN (reading):

Ninety days after date I promise to pay to the order of H. D. Mephram, five thousand dollars, at the Commercial National Bank of Washington, D. C. Value received, with interest at the rate of — per cent per annum until paid.

C. L. GRAY,
Kansas City, Mo.

"Railway Exchange Building," is that?

Mr. SANDS. I do not know; I do not remember.

The CHAIRMAN. "Ry. Exchange Bldg." These are the indorsements:

July 31, 1918. By payment, \$575.

H. D. MEPHAM.
LESTER SISLER.

Can you loan this note to the committee to have a photograph copy taken of it, leave it in our custody, to be returned?

Mr. SANDS. Well, I do not suppose there is any objection to that.

The CHAIRMAN. We will be responsible for it, Mr. Sands, and see that it will be returned to you.

Mr. SANDS. You can keep the original if you want.

The CHAIRMAN. After the contract was awarded, did you and Mr. Downey have some controversy about this \$40,000 payment?

Mr. SANDS. Yes, sir.

The CHAIRMAN. What was it about, Mr. Sands?

Mr. SANDS. Well, it was a controversy first on the grounds of what it was given for, and the second was, that he thought that it was excessive.

The CHAIRMAN. He thought it was excessive?

Mr. SANDS. Yes.

The CHAIRMAN. Well now, a controversy upon the grounds of what it was given for, just relate what that was?

Mr. SANDS. Well, I do not think I met Mr. Downey until after he had gotten the contract.

The CHAIRMAN. You have said that several times.

Mr. SANDS. Yes; I just wanted to impress that.

The CHAIRMAN. Yes, sir.

Mr. SANDS. And when he came down to see me he said, first, it was for financial accommodation. He said that was customary; but I said this: "Well," I said, "I can not take it for that." I said, "I may have to get some money from the bank, and that would involve another feature, and I could not do it." I had previously financed a number of concerns outside the bank, but in this case I feared it might come to the bank, for the reason that Mr. Downey opened a big account there at the bank. He promised us a half million dollars, but when it came down he sent us \$100,000; I just recall that; and for that reason I feared that there might be some question about it. I did not want that question.

The CHAIRMAN. Well, do you mean to say that he understood that this \$40,000 was being paid for one purpose, but he wanted it fixed so that it would be understood as being paid for another purpose?

Mr. SANDS. Well, I can not say what he understood, but that was what I told him plainly.

The CHAIRMAN. What did you tell him?

Mr. SANDS. I told him just what I said, when he came down to see me at my rooms and told me that this money—that they could not charge it up except for financing or something of that kind; that I said, "Well, I can not do that." I said, "That would place me in an embarrassing position, because you would have dealings with the bank, growing out of your account." And we had considerable controversy about that, and it was never settled.

The CHAIRMAN. Yes; but how did this controversy get started?

Mr. SANDS. Well, when he came down there to make the settlement it occurred.

The CHAIRMAN. Yes; but how did it get started, about \$40,000? How did he come to offer it to you as a payment for financial accommodation?

Mr. SANDS. I don't know. I can not answer that.

The CHAIRMAN. Well, did he say anything about it being paid for securing a contract?

Mr. SANDS. No; but I did.

The CHAIRMAN. What did you say?

Mr. SANDS. I said that it was for—I considered this fee to be for securing a contract, aiding him in getting it.

The CHAIRMAN. What did he say?

Mr. SANDS. Well, we had the argument, just that, and we did not settle it either way, that way.

The CHAIRMAN. Did he disclaim any knowledge of his paying or his concern paying any amount of money for getting a contract?

Mr. SANDS. No; he did not.

The CHAIRMAN. Did you tell him that Mr. Cranor had made this arrangement?

Mr. SANDS. I think I did. I could not say; I think I did; yes, sir.

The CHAIRMAN. Did he say anything to you; that Mr. Cranor had no authority to enter into any such arrangement?

Mr. SANDS. I do not recall his saying that; I do not recall his saying that.

The CHAIRMAN. But he came to you and stated that they could not charge this up on the books unless it appeared for securing financial accommodation?

Mr. SANDS. That is what I understood him to say; yes, sir.

The CHAIRMAN. And what financial accommodation did you secure for him?

Mr. SANDS. Well, I did not secure very much, because I really got out of the bank, and my own credit was hindered to such an extent that I could not get any money for him. I told him, I said, "I can not get you any money."

The CHAIRMAN. Well, then, he was going to pay you \$40,000 for securing nothing, was that it?

Mr. SANDS. Yes, sir.

The CHAIRMAN. He did get \$100,000 at that bank, did he not?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Left it on deposit?

Mr. SANDS. Yes, sir.

The CHAIRMAN. In the savings bank department?

Mr. SANDS. Yes, sir. He made a deposit there of that.

The CHAIRMAN. Did Mr. Downey know how this \$40,000 was to be divided?

Mr. SANDS. I do not think he did.

The CHAIRMAN. Did you tell him at that controversy?

Mr. SANDS. No, sir.

The CHAIRMAN. Did you mention Mr. Bolling's name at that controversy?

Mr. SANDS. I do not think so; no, sir.

The CHAIRMAN. Or Mr. Sisler's name?

Mr. SANDS. I do not think so.

The CHAIRMAN. Did you mention Mr. Cranor's name?

Mr. SANDS. I think very likely; yes, I spoke of Mr. Cranor.

The CHAIRMAN. Mr. Fuller?

Mr. SANDS. No; Mr. Fuller had nothing to do with it.

The CHAIRMAN. You did not mention his name?

Mr. SANDS. No; he had nothing to do with it.

The CHAIRMAN. You state in this affidavit which was drawn up, but which you subsequently, upon advice of your counsel, declined to sign:

During the negotiations Mr. Downey came to Washington and was introduced to me by Mr. Cranor. He ratified the agreement whereby \$40,000 commission was paid, but provided that such payments would be made by notes bearing the date of April 15, 1917, in amounts of \$10,000 each, and maturing in 6 months, 9 months, 12 months, and 15 months, respectively, but Mr. Downey insisted that the ostensible consideration for these notes should be my services in procuring a loan of money for him.

Now, that was before the contract was awarded, was it not?

Mr. SANDS. Oh, no; he had gotten the contract.

The CHAIRMAN. What?

Mr. SANDS. He had gotten the contract then.

The CHAIRMAN. Well, that was before this controversy, then, was it not?

Mr. SANDS. No; this was at the time of the controversy.

The CHAIRMAN. You say the notes were to be dated April 15, 1917.

Mr. SANDS. Well, that is my recollection about the dates. I can not recall the dates. That thing was written very hurriedly, and no reference was made to any books at all, so that I could not say whether it was March or April. I could not say about that.

The CHAIRMAN. Well, was the year correct, 1917?

Mr. SANDS. I really am at sea whether that was the year, whether it was 1917 or 1918. I had so many things.

The CHAIRMAN. Well, the notes were actually given in 1918, were they not?

Mr. SANDS. Well, then it was 1918.

The CHAIRMAN. Do you know when the Downey Corporation got their contract for ships?

Mr. SANDS. No; I do not.

The CHAIRMAN. You do not know whether or not they got their contract in July, 1917, do you?

Mr. SANDS. No, I did not know; I do not know about that.

The CHAIRMAN. Well now, assume that they got their contract in July, 1917, how do you explain these notes being all dated in 1918?

Mr. SANDS. Well, that must have been another contract. I do not know about that; it must have been another contract.

The CHAIRMAN. Do you say the Downey Co. got two contracts?

Mr. SANDS. I do not say so, but I should judge there must be, because this was——

The CHAIRMAN. Well, assume they only got one, what do you say about it, these notes all being dated a year later.

Mr. SANDS. Well, the notes should have been dated around the time that they got the contract.

The CHAIRMAN. Perhaps they should have, but they were not, apparently. Now; how do you explain it?

Mr. SANDS. Well, I would say they were; I should say they were dated about the time they got the contract.

The CHAIRMAN. Do you know whether the Downey concern got more than one contract with the Shipping Board?

Mr. SANDS. I do not know.

The CHAIRMAN. Do you know whether or not they had, actually had a contract with the Shipping Board, at the time they were seeking your good offices to get a contract?

Mr. SANDS. I could not say, I do not know.

The CHAIRMAN. Did not Mr. Cranor ever tell you that they had one contract and wanted to get another?

Mr. SANDS. I do not recall his ever telling me; no.

The CHAIRMAN. When you looked up their financial responsibility and their standing, did you inquire into what work they were doing, whether they actually had a contract with the Shipping Board?

Mr. SANDS. I do not recall it now.

The CHAIRMAN. Well, would that not be a natural thing for you to do in looking up the standing of a concern that was seeking a contract, or a loan rather, for you to look up not only their rating and their officials, but to see what work they were actually doing or had done?

Mr. SANDS. Well, it would have been, but I did not do it. I don't remember doing it; I don't remember that.

The CHAIRMAN. You don't remember whether you did or not?

Mr. SANDS. I don't remember; I know that they were very active in business at the time, and I thought very well of them myself.

The CHAIRMAN. The statement is contained in this affidavit which was prepared, but which you declined to sign, upon the advice of your counsel, that—

It had always been understood by Mr. Bolling, and among us, that Mr. Bolling was to receive \$6,250 from the proceeds of the discount of the notes, but for some reason he became worried and did not accept the balance of the \$6,250 still due. I had in the meantime advanced to him in different sums approximately \$1,800. These sums were paid to Mr. Bolling, as nearly as I can recollect, as follows:

Then there is a blank which is not filled in.

Now, was anybody present when you paid him any of this money?

Mr. SANDS. I do not recall anybody being present. I do not think that is likely there were. I do not recall anyone being present. There might have been some one in the office who may have observed it, but I really—it would not have been any of their business, and I do not think that I would have called their attention to it.

The CHAIRMAN. Did you actually owe Mr. Bolling some money at that time?

Mr. SANDS. Well, I did not consider that I owed him any, but Mr. Bolling built me a house, and I owed him a balance, I think, of about \$4,000 on it on a note that was discounted, and which I was paying, my own note, and it may have been as much as \$4,000 at that time. I paid the note myself. That is all I owed Mr. Bolling.

The CHAIRMAN. Did you charge off this \$4,000 note you owed against the \$6,250 that was going to him?

Mr. SANDS. No, sir; I paid it myself.

The CHAIRMAN. You paid that yourself?

Mr. SANDS. Yes, sir.

The CHAIRMAN. So you did not owe him any money?

Mr. SANDS. I did not consider I owed him any; no.

The CHAIRMAN. Well, you did not consider that you owed him any; don't you know whether you did or not?

Mr. SANDS. Well, don't you see the difference, that he had my note discounted; you might say that I owed him the \$4,000, but he had discounted the note to the bank and I was paying it. Now, if you say that I owed the money, in one sense I did owe it to him, because he was responsible for the note, on the back of it; but I did not consider that I owed him any, because I was paying my own note.

The CHAIRMAN. In installments?

Mr. SANDS. Well, I paid it every time it became due. Every time it came due I credited \$500 or something of that kind. I paid him altogether for building this house about \$22,000.

The CHAIRMAN. How much?

Mr. SANDS. About \$22,000; about—well I guess it may have been \$19,000.

The CHAIRMAN. Paid who?

Mr. SANDS. Bolling.

The CHAIRMAN. \$19,000 altogether?

Mr. SANDS. Yes, sir.

The CHAIRMAN. For that house?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Had that \$19,000 been paid?

Mr. SANDS. It had been paid down to this note which I was paying.

The CHAIRMAN. Down to this \$4,000 note?

Mr. SANDS. Yes.

The CHAIRMAN. Was that under some contract in writing?

Mr. SANDS. Yes; regular builders' contract.

The CHAIRMAN. Did he build the house?

Mr. SANDS. Yes.

The CHAIRMAN. And you agreed to pay for it?

Mr. SANDS. Yes, sir.

The CHAIRMAN. It was built according to your plans, was it?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Now you say you—

paid Sisler on this and other matters a total of \$20,500, part of which, the sum of \$14,000, was in payment of his share of a loan amounting to \$21,000, so he and I together received, on the basis of one-third to me and two-thirds to him as a broker's commission in procuring the same of a steamship.

Mr. SANDS. Yes, sir.

The CHAIRMAN. Do you know whether that steamship sale was connected in any way with the Shipping Board?

Mr. SANDS. I don't think so, sir, that it was a Shipping Board boat; I don't think so.

The CHAIRMAN. You were selling steamships that you didn't know very much about, were you?

Mr. SANDS. Not very much.

The CHAIRMAN. Who was the steamship sold to?

Mr. SANDS. Dockendorf & Co.

The CHAIRMAN. Dockendorf?

Mr. SANDS. Yes.

The CHAIRMAN. When?

Mr. SANDS. I could not state the date, counselor, I could not state the date; it was sold for seven hundred thousand dollars and odd.

The CHAIRMAN. \$700,000?

Mr. SANDS. Yes.

The CHAIRMAN. Prior to the war?

Mr. SANDS. Prior to our entrance into the war; it was during the war.

The CHAIRMAN. During the war?

Mr. SANDS. Yes.

The CHAIRMAN. Before the Downey Co. got their contract?

Mr. SANDS. Afterwards.

The CHAIRMAN. Afterwards?

Mr. SANDS. Yes.

The CHAIRMAN. Who was the steamship sold for?

Mr. SANDS. I don't recall who owned the steamship; and I don't remember the tonnage.

The CHAIRMAN. What was the name of it?

Mr. SANDS. I can not remember the name.

The CHAIRMAN. Who paid you the commission?

Mr. SANDS. The purchaser.

The CHAIRMAN. The purchaser paid the commission?

Mr. SANDS. Yes.

The CHAIRMAN. Cash?

Mr. SANDS. Yes.

The CHAIRMAN. \$21,000?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Anybody else involved in that sale?

Mr. SANDS. No, sir.

The CHAIRMAN. Did not receive that through a broker?

Mr. SANDS. No.

The CHAIRMAN. How did you happen to become connected with that transaction?

Mr. SANDS. Well, I knew Dockendorf.

The CHAIRMAN. You knew the Dockendorf Co.?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Are they an American company?

Mr. SANDS. Yes, sir.

The CHAIRMAN. And where are their headquarters?

Mr. SANDS. In New York; I don't remember the exact address.

The CHAIRMAN. In New York?

Mr. SANDS. Yes.

The CHAIRMAN (reading) :

The boat was to be delivered at Bordeaux, France, for foreign account, and you understood that the flag was transferred.

Is that so?

Mr. SANDS. Yes, sir.

The CHAIRMAN (reading) :

You still have a note indorsed by Sisler for \$5,000 on which \$500 has been paid on account, but you have never made any attempt to collect the remaining \$4,500, because you considered that it was owing to him on account of the Downey commission still unpaid.

Is that so?

Mr. SANDS. Yes, sir.

The CHAIRMAN. That \$5,000 note which I mentioned in the last question was the one growing out of some sand and gravel?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Company transactions?

Mr. SANDS. I had no connection with the Sand & Gravel.

The CHAIRMAN. No; the note I say was.

Mr. SANDS. Yes; they used it in that business. He wanted me to go into the sand and gravel business with him. I didn't think very much of the sand and gravel business and did not go.

The CHAIRMAN. Who is there or what evidence is there other than what you have told the committee that can testify or will show that Mr. Bolling or Mr. Sisler were in any way connected with this Downey Shipbuilding contract?

Mr. SANDS. Well, Mr. Cranor.

The CHAIRMAN. Mr. Cranor?

Mr. SANDS. Yes.

The CHAIRMAN. You know where he is?

Mr. SANDS. I don't know; he is in New York somewhere; I don't know where he is; he lives here in New York; I have not seen him for several months.

The CHAIRMAN. He was the agent for the Downey Co.?

Mr. SANDS. He represented them in some matters; I don't know to what extent his agency was; I don't know what he got.

The CHAIRMAN. He was the agent for the Downey Co. in this country?

Mr. SANDS. Yes.

The CHAIRMAN. At least you understood it so?

Mr. SANDS. Yes.

The CHAIRMAN. You relied upon his representations and attempted to carry out his requests in reference to this Downey shipbuilding contract?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Have you seen in the columns of any newspaper the version given by Mr. Bolling and Mr. Wallace Downey of this transaction?

Mr. SANDS. I have not read a word.

The CHAIRMAN. Haven't read any of them?

Mr. SANDS. No.

The CHAIRMAN. So you don't know what their version of the matter is?

Mr. SANDS. I do not; I have not read it.

The CHAIRMAN. And you state that you have told all that you know that you can remember?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Of this entire transaction?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Any questions, Mr. Kelley?

Mr. KELLEY. In answer to a question by the chairman I think you stated that you have known Mr. Cranor for about 15 years?

Mr. SANDS. Yes, sir.

Mr. KELLEY. In this affidavit which you did not sign and which you agreed to, there is this language:

I was then residing at the New Willard Hotel in the city of Washington, and became acquainted with another guest of the house named John Cranor.

Mr. SANDS. Well, that is not correct. That thing was subject to correction as far as that goes, and I never signed it; but I have known Mr. Cranor for years. That was in there—I never noticed the thing; I didn't sign it. I have known Mr. Cranor; I have known him since 1900, I suppose; I had known him for years.

Mr. KELLEY. Then you did not become acquainted with him at the Willard Hotel?

Mr. SANDS. No. I met him there, but I did not become acquainted with him there.

Mr. KELLEY. That particular thing was not——

Mr. SANDS. Was not correct.

Mr. KELLEY. Was not specifically called to your attention?

Mr. SANDS. Was not called to my attention, and I never revised it, because they took it away themselves; in fact, I didn't know that they had it and so I did not——

Mr. KELLEY. How much money did you pay Mr. Cranor growing out of these notes?

Mr. SANDS. I paid Mr. Cranor about \$10,000.

Mr. KELLEY. And you owe him some still?

Mr. SANDS. No; Mr. Cranor was in my debt, anyway; I suppose he owes me money.

Mr. KELLEY. How does that happen?

Mr. SANDS. Well, as I say, I have known him for years, and I have always loaned him money from time to time.

Mr. KELLEY. Did you write a letter to the Shipping Board or the Emergency Fleet Corporation with respect to the credit of the Downey concern?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Had you ever had any business transactions with the Downey concern before?

Mr. SANDS. No.

Mr. KELLEY. How does it happen that they went to you for a letter respecting their standing, when they had never had any business transactions with you?

Mr. SANDS. Mr. Cranor supposed a letter from me would be serviceable to them.

Mr. KELLEY. Wouldn't it seem rather strange that they didn't go to the bank that they had been doing business with all these years for testimony for the Shipping Board rather than go to a strange banker in Washington?

Mr. SANDS. I supposed that they had done that also.

Mr. KELLEY. You didn't know anything about him at all, did you?

Mr. SANDS. Except from investigation and what I got from Mr. Cranor.

Mr. KELLEY. The only thing that you knew was what Mr. Downey told you about them?

Mr. SANDS. I examined mercantile reports at the time.

Mr. KELLEY. What?

Mr. SANDS. I examined the mercantile reports at the time.

Mr. KELLEY. The Shipping Board could do that, couldn't they?

Mr. SANDS. Yes, sir.

Mr. KELLEY. But as a banker, you wrote a letter to the Shipping Board?

Mr. SANDS. Yes.

Mr. KELLEY. Saying they were all right?

Mr. SANDS. I don't remember the words, but I believed that they would be able to carry out the contract; that they handled some large ones.

Mr. KELLEY. Although you had never had any business transactions with them, and had never met Mr. Downey until this transaction?

Mr. SANDS. I don't think I met Mr. Downey until that time or afterwards.

Mr. KELLEY. Did you think you were competent to advise the Shipping Board as to the financial credit of these people at the time you wrote that letter?

Mr. SANDS. Nothing any more than to say that the letter was perfunctory, that they needed letters from the different places to help get them contracts; everybody was trying to get contracts.

Mr. KELLEY. If it is true that the Downey people had been building ships for the Shipping Board since some time in June or July of 1917, why should you write a letter about their credit in 1918?

Mr. SANDS. I don't know; I don't even remember that they had contracts before; I didn't know it; if I knew it I don't remember.

Mr. KELLEY. Where was Downey to get this \$100,000 that he was going to deposit in your bank?

Mr. SANDS. I supposed he was to get \$500,000, as I supposed it would be advanced from the Shipping Board funds; that is ordinarily the case.

Mr. KELLEY. On the initial payment of 10 per cent?

Mr. SANDS. Yes, sir; that is what I supposed.

Mr. KELLEY. Well, if he got \$500,000 from the Shipping Board without paying anything for it, why would he pay you \$40,000 for the credit of \$100,000?

Mr. SANDS. I didn't have any idea that he was going to do that. I didn't think he would pay \$40,000 to get \$100,000.

Mr. KELLEY. How much was he going to get?

Mr. SANDS. From the bank or from me?

Mr. KELLEY. Yes, for this \$40,000, how much credit was he going to get from you?

Mr. SANDS. I was not going to give him any credit.

Mr. KELLEY. What is that?

Mr. SANDS. I was not going to give him any credit, I felt kindly toward him, I aided him; I aided a number of concerns during the war, personally.

Mr. KELLEY. I thought this \$40,000 you said was for services rendered in connection with the bank?

Mr. SANDS. No, I didn't say so.

Mr. KELLEY. What did you say?

Mr. SANDS. I said it was not.

Mr. KELLEY. Who handed you these notes?

Mr. SANDS. I think Mr. Downey himself.

Mr. KELLEY. Personally?

Mr. SANDS. I think so.

Mr. KELLEY. Are you sure about that?

Mr. SANDS. Well, I could not say positively, but that is my impression, that he is the only one that handed them to me; he may have mailed them to me; but I think he handed them to me.

Mr. KELLEY. Which was it? Did he mail them to you or did he hand them to you?

Mr. SANDS. I could not say, you know; I think he handed them to me.

Mr. KELLEY. Do you remember of his handing them to you?

Mr. SANDS. I don't recall him handing them or mailing them to me; I think he handed them to me, I could not say.

Mr. KELLEY. What makes you think he handed them to you?

Mr. SANDS. Because that is my impression of the matter; I have not any remembrance of the conversation; I could not remember the circumstances any more than I got the notes; and I think he gave them to me.

Mr. KELLEY. Do you know, at the time of this transaction, whether Mr. Downey's firm was getting money on their contract right along from the Shipping Board?

Mr. SANDS. No; I didn't know.

Mr. KELLEY. You knew they were going to get \$500,000, you said?

Mr. SANDS. I knew they were going to get some considerable sum.

Mr. KELLEY. They got it, didn't they?

Mr. SANDS. They got considerable on it; I think he may have got as high as \$750,000.

Mr. KELLEY. What was this \$100,000 of credit at your bank for? That is not very much credit, is it, for a shipping concern?

Mr. SANDS. Not very much.

Mr. KELLEY. Now, what was that for?

Mr. SANDS. Well, my idea was that they were not going to use the money, they just wanted to make their statement better, so as to show more cash on hand than in the corporation liabilities, I suppose that is what they wanted.

Mr. KELLEY. Is that what they told your board of directors or discount committee, that they wanted this money for?

Mr. SANDS. I think so, I think I told it to them.

Mr. KELLEY. You were willing to be a party to a fraud on your bank?

Mr. SANDS. I didn't know—very frequently concerns borrow money to strengthen their statements, inasmuch as cash on hand means a great deal more against liabilities than the amount.

Mr. KELLEY. The banks you think are in the habit of helping customers to deceive creditors in that way?

Mr. SANDS. I do not think—they didn't put it that way.

Mr. KELLEY. Well, what is it? I don't care how you put it, what is it? They were not to have the benefit of this \$100,000 at all, were they?

Mr. SANDS. No.

Mr. KELLEY. Then it was not really any loan whatever.

Mr. SANDS. Practically not.

Mr. KELLEY. No. Where was this money—how was it tied up?

Mr. SANDS. It was put into the savings department.

Mr. KELLEY. They could not check that out at all?

Mr. SANDS. No, sir.

Mr. KELLEY. Now, is that the only financial assistance that you rendered the Downey company by putting \$100,000 into the savings fund?

Mr. SANDS. Yes, sir.

Mr. KELLEY. You swear absolutely—I want this perfectly straight—that you or the Commercial National Bank at Washington, as far as you know, never made any loan of any kind to this Downey company except this \$100,000 fund which was put in such a way that it could not be used and that it was for the purpose of strengthening their account and thereby deceiving creditors to that extent as to the amount of cash that they had on hand?

Mr. SANDS. Your question was: Whether they had any other help?

Mr. KELLEY. Yes.

Mr. SANDS. I don't know. But I understood that afterwards they borrowed some more money from the bank.

Mr. KELLEY. From your bank?

Mr. SANDS. Yes; when I left the bank.

Mr. KELLEY. Did they borrow it in the same way?

Mr. SANDS. I don't know; I don't know how they borrowed it.

Mr. KELLEY. But during your connection with the bank they never had any other credit there that they could use?

Mr. SANDS. No.

Mr. KELLEY. But if they put these notes up for financial credit given by you, that is all the credit they got for the \$40,000?

Mr. SANDS. That is all.

Mr. KELLEY. And then you wrote a letter to the Shipping Board that they were all right?

Mr. SANDS. Well, my letter was that I believed them to be all right, and they were a good concern.

Mr. KELLEY. You didn't know anything about them except what Mr. Cranor told you?

Mr. SANDS. I got mercantile reports and also Mr. Cranor's information.

Mr. KELLEY. You knew nothing other than the general public knew who had access to the same reports that you had?

Mr. SANDS. Yes, sir.

Mr. KELLEY. The credit man in the Shipping Board would have access, of course, to commercial reports?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Did you visit their plant?

Mr. SANDS. No, sir.

Mr. KELLEY. Did you write a letter saying you had visited their plant?

Mr. SANDS. No, sir.

Mr. KELLEY. Did you write a letter saying you had inquired in their personnel and found them to be men of high caliber?

Mr. SANDS. I think I very likely did; I don't remember the purport of the letter.

Mr. KELLEY. You had never met Mr. Downey at all?

Mr. SANDS. When I wrote that letter?

Mr. KELLEY. Yes.

Mr. SANDS. I don't remember whether I had met him or not; I think I had not; I don't think I met him until after he got the contract.

Mr. KELLEY. If you did certify to their standing, you certified to something you didn't know anything about?

Mr. SANDS. Except from the report.

Mr. KELLEY. Except what Mr. Cranor told you—in fact, you didn't know anybody connected with the firm at all except Cranor?

Mr. SANDS. Yes.

Mr. KELLEY. And he was an old friend of yours, and a creditor of yours?

Mr. SANDS. Yes.

Mr. KELLEY. Owed you money?

Mr. SANDS. Yes, sir.

Mr. KELLEY. How much money did he owe you at this time?

Mr. SANDS. Oh, he owed me \$2,000 or \$3,000.

Mr. KELLEY. Now, when Mr. Downey kicked, as you have expressed it, about paying the last note, just what did he say?

Mr. SANDS. I don't recall that now. Of course, I was out of the bank then, but he was still arguing on the same line, that he expected to get accommodations, but he hadn't gotten them, and things of that kind, and I really was not in a position to force him on it, and I really didn't want to.

Mr. KELLEY. Why not?

Mr. SANDS. Well, because I didn't want to.

Mr. KELLEY. Publicity?

Mr. SANDS. Yes; because I had had so much, because it worried me sick and to get out of that I would have given him back all his notes.

Mr. KELLEY. You would have returned all of the notes?

Mr. SANDS. I think I would rather than—to get rid of him as far as I was concerned.

Mr. KELLEY. You gave him \$5,000 in cash back, did you?

Mr. SANDS. I think so; yes, sir; I gave him a check for \$5,000.

Mr. KELLEY. Gave him a check?

Mr. SANDS. Yes.

Mr. KELLEY. When did you do that?

Mr. SANDS. Well, I can not recall exactly; I know I had helped him out on one of the notes when it came due. He wanted an extension.

Mr. KELLEY. Which one was that?

Mr. SANDS. I think it was on the second one.

Mr. KELLEY. You paid that note yourself, didn't you?

Mr. SANDS. I think I paid \$5,000 on it and he paid \$5,000; that is my recollection.

Mr. KELLEY. On the second note?

Mr. SANDS. Yes.

Mr. KELLEY. How about the third note?

Mr. SANDS. Well, the third note; I think I paid \$5,000 on that one.

Mr. KELLEY. And he paid \$5,000?

Mr. SANDS. I think that is so.

Mr. KELLEY. That is, you rebated \$10,000, did you not?

Mr. SANDS. I rebated ten.

Mr. KELLEY. You testified here the other day that you rebated only \$5,000; you said you got \$25,000 from him?

Mr. SANDS. That is what I did get, I really got \$30,000, I owed him something too, he claimed; I got \$30,000; I gave him one note back and helped him out on the other note.

Mr. KELLEY. You gave him one note back, that would reduce it to \$30,000, wouldn't it, and then if you gave him \$10,000 to help out on these notes at the bank, that would leave only \$20,000, wouldn't it?

Mr. SANDS. Yes; but I got \$25,000 of him, because he gave me—

Mr. KELLEY. Tell the truth about it; what is the fact?

Mr. SANDS. I am trying to tell you the facts, but as a matter of fact, there was \$40,000 worth of notes, and I gave him \$10,000 back, and I helped him on the other.

Mr. KELLEY. How much?

Mr. SANDS. To the extent of \$5,000, and afterwards he paid it, he gave me a renewal note.

Mr. KELLEY. He paid that back to you?

Mr. SANDS. He paid it back; yes, sir.

Mr. KELLEY. Oh ho! So that after he did this, after he paid these two, was that when he made objections?

Mr. SANDS. Yes, sir; he made objections almost—

Mr. KELLEY. All the time?

Mr. SANDS. Yes, sir.

Mr. KELLEY. From the beginning?

Mr. SANDS. Yes, sir; well, not for the first six months, after the first note, he made objections right along.

Mr. KELLEY. Did he write you a letter telling you how fine your services were, and how valuable they were to him?

Mr. SANDS. He may have; I don't recall it.

Mr. KELLEY. Where would that letter be, if you have it?

Mr. SANDS. That would be in my file in Washington.

Mr. KELLEY. Would you get that letter if you got such a one?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Do you remember any such letter?

Mr. SANDS. I don't remember it; no, sir; I don't remember it.

Mr. KELLEY. Well, then, of the \$5,000 that you helped him with at the bank, he gave you another note for that?

Mr. SANDS. Yes, sir.

Mr. KELLEY. At the same time?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And then you got that cashed?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Where did you get that cashed?

Mr. SANDS. I don't recall now, I only remember the net transaction; I don't remember where the notes were placed at the time; you see, I was out—I didn't borrow anything from the Commercial Bank; I was out of the bank almost when the first note became due, and after that I used other connections, I don't remember where it was.

Mr. KELLEY. Mr. Downey was getting money from the Shipping Board right along all the while, wasn't he?

Mr. SANDS. Yes; I suppose he was.

Mr. KELLEY. I suppose this \$40,000 came from the Shipping Board, didn't it, money advanced on their contract?

Mr. SANDS. Well, I don't know if it did; I thought it came from him.

Mr. KELLEY. Where else did it come from?

Mr. SANDS. I thought it came out of his pocket.

The CHAIRMAN. The Shipping Board has a large claim against him yet, hasn't it?

Mr. SANDS. I am not familiar with it; I don't know; I am not familiar with that.

Mr. KELLEY. Well, if this money was used—was taken out of funds advanced by the Shipping Board to build ships with, it would be about the time that these contracts were made?

Mr. SANDS. Well, I could not say as to that because the notes run so long, and I didn't know what his position was at the maturity of each note; I didn't know what it was.

Mr. KELLEY. You are sure these notes were not given in 1917 and dated 1918?

Mr. SANDS. No, no, no; they were dated at the time of the transaction.

Mr. KELLEY. Who was Nathan Masher?

Mr. SANDS. He was a friend of mine and he loaned me some money on one of the notes.

Mr. KELLEY. Which one?

Mr. SANDS. I think the third note; I think so.

Mr. KELLEY. You mean the third \$10,000 note?

Mr. SANDS. Yes, sir; the third \$10,000 note.

Mr. KELLEY. What did you mean, he loaned you money on one—cashed the note?

Mr. SANDS. He cashed the note for me.

Mr. KELLEY. Was that one of those notes that appeared here, or is this the \$5,000 note that was given for the amount that you advanced to reduce the \$10,000 note?

Mr. SANDS. No; I think it was the \$5,000 that I advanced to reduce the second—on the second \$10,000.

Mr. KELLEY. Mr. Masher did not cash it?

Mr. SANDS. No, sir.

The CHAIRMAN. Take a recess here of 5 or 10 minutes.

(A short recess was here taken.)

Mr. KELLEY. When was the Providence Engineering Co. organized?

Mr. SANDS. I do not know.

Mr. KELLEY. Do you know anything about its capital?

Mr. SANDS. I have forgotten; I do not know. It was one of the subsidiaries of the Downey Shipbuilding Co.

Mr. KELLEY. Do you know anything about its assets?

Mr. SANDS. No.

Mr. KELLEY. Do you know anything about its plant up there?

Mr. SANDS. No, except just in a general way, that they manufactured engines for these boats.

Mr. KELLEY. Do you know anything about its financial standing?

Mr. SANDS. No, sir.

Mr. KELLEY. This was the concern that you told the Shipping Board in a letter was all right, was it not?

Mr. SANDS. I thought it was the Downey Shipbuilding Co.; that is my recollection.

Mr. KELLEY. Well, which company did you assist in getting contracts for? The Downey Shipbuilding Co. or the Providence Engineering Co.?

Mr. SANDS. For the Downey Shipbuilding Co.

Mr. KELLEY. Are you sure?

Mr. SANDS. I thought so; that is the one; I thought I got the contract for the Downey Shipbuilding Co. The engineering company only manufactured the engines, and was a subsidiary of the Downey Shipbuilding Co.

Mr. KELLEY. Did the officials of the Shipping Board write to you relative to the financial standing of this company?

Mr. SANDS. I do not remember.

Mr. KELLEY. You did not know anything at all, really, about the Providence Engineering Co.?

Mr. SANDS. Nothing except it was one of the subsidiaries of the Downey Shipbuilding Co.

Mr. KELLEY. You wrote the Shipping Board to this effect, did you: "Will state for investigation we are willing to extend a line of credit of \$100,000 to \$125,000 to this concern to aid them in their contract with the Emergency Fleet Corporation for the construction of 10 tugboats." Did you write that letter to the Emergency Fleet Corporation with relation to the Providence Engineering Co.?

Mr. SANDS. I think I likely did, but I was under the impression it was for the Downey Shipbuilding Co.

Mr. KELLEY. You really were not willing to extend them a line of credit for \$100,000, were you?

Mr. SANDS. To the Providence Engineering Co.?

Mr. KELLEY. Yes.

Mr. SANDS. Well, I was, under the circumstances.

Mr. KELLEY. A line of credit which they could not use?

Mr. SANDS. Yes.

Mr. KELLEY. Do you think that was deceptive?

Mr. SANDS. In a way, I should say it was.

Mr. KELLEY. That was a sort of fraud on the Shipping Board, if they acted on that letter, you, the vice president of the Commercial National Bank, stating that "we are willing to extend a line of credit of \$100,000."

Mr. SANDS. Yes, sir.

Mr. KELLEY. Whereas you were not willing to do anything of the kind, except as it were put in a fund which they could not use?

Mr. SANDS. Yes, sir.

Mr. KELLEY. But, still, it was a part of the general plan in assisting this corporation in getting contracts?

Mr. SANDS. I considered the Providence Engineering Co. the same as Downey.

Mr. KELLEY. I say, it was a part of the general plan in assisting the engineering company in getting these contracts?

Mr. SANDS. Yes, sir. But I always considered the Providence Engineering Co as the Downey Shipbuilding Co.

Mr. KELLEY. You are business man enough to know that each corporation stands on its own feet?

Mr. SANDS. Yes, sir. I thought they were entitled to the same standing that the Downey Shipbuilding was.

Mr. KELLEY. I say, you are enough of a business man to know that that would not necessarily follow at all?

Mr. SANDS. No—I thought that the Downey Shipbuilding Co. was the same, really, as the Providence Engineering Co.

Mr. KELLEY. But their assets might be entirely different?

Mr. SANDS. Yes, sir.

Mr. KELLEY. You say that you have paid Mr. Bolling about \$20,000 altogether for a house?

Mr. SANDS. Oh, yes.

Mr. KELLEY. How far back would that transaction go?

Mr. SANDS. I would like to say it may be a little less than \$20,000.

Mr. KELLEY. Round about that?

Mr. SANDS. Yes—that was in 1916.

Mr. KELLEY. When did you make the last payment on the house?

Mr. SANDS. It was some time during the year 1916, the latter part of the year, I think. Just as he built it I got into the house in the fall, and I finished paying him then.

Mr. KELLEY. Did you take up with him at some time the question of furnishing some equipment or supplies for the Downey people?

Mr. SANDS. I do not recall it.

Mr. KELLEY. Did you get some commission for obtaining supplies?

Mr. SANDS. I do not remember it.

Mr. KELLEY. Do you remember telling him that his share of that commission was a certain amount?

Mr. SANDS. I do not remember that at all; I do not remember that circumstance.

Mr. KELLEY. Do you remember telling him that he did not make any profit on the house?

Mr. SANDS. I do not recall it.

Mr. KELLEY. You do not remember that at all?

Mr. SANDS. No, sir; because I would not know whether he made any profit on the house; I should think he would have made a profit.

Mr. KELLEY. The house transaction was entirely closed at this time?

Mr. SANDS. Oh, yes; yes, sir.

Mr. KELLEY. So if you paid him any money at this time in 19——

Mr. SANDS (interposing). 18.

Mr. KELLEY. 1918 or 1919—it was out of the proceeds of one or more of these notes?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Is the house transaction entirely closed now?

Mr. SANDS. With the exception of the \$900 note which I still owe.

Mr. KELLEY. When was that due?

Mr. SANDS. I think it was due the 15th of December.

Mr. KELLEY. This year?

Mr. SANDS. Yes, sir.

Mr. KELLEY. How long have you known Mr. Sisler?

Mr. SANDS. I think I met him in the early part of 1918; I think that is about the time.

Mr. KELLEY. How did you happen to meet him?

Mr. SANDS. I met him through Mr. Bolling.

Mr. KELLEY. Mr. Bolling introduced you to him in the early part of 1918?

Mr. SANDS. I think so. I was under the impression it was 1917, but since those notes were brought to my attention—it was the early part of 1918.

Mr. KELLEY. When did your personal transactions with the Shipping Board begin, 1917 or 1918?

Mr. SANDS. 1918.

Mr. KELLEY. You did not organize this company down at Quantico until 1918?

Mr. SANDS. No; that company was organized in 1917, but I had no personal dealings with the Shipping Board then. I was simply the treasurer; I was simply treasurer and I had no dealings with them any more than just to act as treasurer for the company and aid them in every way I could.

Mr. KELLEY. Now, on the house—the payments that you made to Mr. Bolling, how were they made on the house?

Mr. SANDS. Well, I think I paid him for the lot in cash \$6,000.

Mr. KELLEY. You mean in cash or by check?

Mr. SANDS. Oh, check; yes.

Mr. KELLEY. Did you pay him any money?

Mr. SANDS. I do not recall ever paying him any cash money.

Mr. KELLEY. You do not recall paying any money on the house at all?

Mr. SANDS. No cash money.

Mr. KELLEY. No cash?

Mr. SANDS. I do not recall ever paying any cash money.

Mr. KELLEY. As to the payment of the proceeds of these notes, how was the division of the proceeds of these notes paid?

Mr. SANDS. I paid all my transactions by check. I do not remember paying any cash at all.

Mr. KELLEY. You mean that the proceeds of these notes was divided by checks?

Mr. SANDS. Well, there never was any actual division, don't you see?

Mr. KELLEY. It was paid in checks?

Mr. SANDS. But there were advances.

Mr. KELLEY. It was against these fees.

Mr. SANDS. Yes.

Mr. KELLEY. And that was always paid by checks.

Mr. SANDS. And that was always paid by checks. I do not think I ever paid any cash, because I rarely ever do that—I do not think so.

Mr. KELLEY. You do not remember ever having paid him any money at all?

Mr. SANDS. I do not remember ever paying him any cash money at all.

Mr. KELLEY. Did you ever give him a note for the house transaction?

Mr. SANDS. I gave him this note which I mentioned, of \$4,000; that is all.

Mr. KELLEY. I thought that was with relation to this.

Mr. SANDS. I thought you asked me about the house.

Mr. KELLEY. I said, exclusive of the house.

Mr. SANDS. I do not remember giving him any—we had had business transactions running back into 1913 and 1914. We had considerable transactions. I had some money at one time.

Mr. KELLEY. You had what?

Mr. SANDS. I had some money at one time, and we had considerable transactions, and I possibly might have loaned him some money on notes; I can not remember, because I was very friendly with my friends—I was rather free with my money.

Mr. KELLEY. Have you had any business transactions since 1916 except the house and this Downey transaction?

Mr. SANDS. I do not recall any.

Mr. KELLEY. So that all payments made to him since 1916—what date would you say in 1916 that you bought the house?

Mr. SANDS. It was in the fall of the year, about September.

Mr. KELLEY. Since September, 1916?

Mr. SANDS. About September, 1916.

Mr. KELLEY. All payments made since September, 1916, either in checks or cash or notes would be either on the house or on the Downey matter?

Mr. SANDS. Yes, sir; that is my recollection of it. We had other transactions. I do not remember whether—I helped him in his brokerage concern, you know. I do not remember what date that was.

Mr. KELLEY. Mr. Bolling was in the brokerage business before he went with the Shipping Board, was he not?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Not afterwards?

Mr. SANDS. No.

Mr. KELLEY. Do you know when he went with the Shipping Board?

Mr. SANDS. I think he must have gone there about the spring of 1917.

Mr. KELLEY. Almost immediately when we got into the war?

Mr. SANDS. I think so; I could not say about that, but that is my recollection.

Mr. KELLEY. Then he retired from his brokerage company at that time?

Mr. SANDS. He had retired from the brokerage company early in the year.

Mr. KELLEY. Earlier in 1917?

Mr. SANDS. Yes, sir.

Mr. KELLEY. So you did not assist him any in the brokerage business after he retired from the concern?

Mr. SANDS. No, sir.

Mr. KELLEY. So that none of the transactions which might appear between you and him after 1917—April—would be about the brokerage transactions?

Mr. SANDS. No, sir.

Mr. KELLEY. Would not be loans for taking care of the brokerage business in any way?

Mr. SANDS. No, sir.

Mr. KELLEY. As you cashed these notes, did you carry the proceeds in a special account in some bank?

Mr. SANDS. No, sir.

Mr. KELLEY. You put it into your general account?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And where did you carry that?

Mr. SANDS. I think I carried most of my accounts in the Takoma Bank. You see, I got out of the Commercial Bank in September, 1918; I carried very little of my account there after that, and I kept all my accounts in the Takoma Park Bank, I think.

Mr. KELLEY. Then, any checks you may have given Sisler, Bolling, or Cranor, would be put in the Takoma Park Bank?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Mr. Sisler received his full share?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And that you paid with check?

Mr. SANDS. I think I paid it all in checks; yes, sir.

Mr. KELLEY. On the Takoma Park Bank?

Mr. SANDS. Well, I should think so.

Mr. KELLEY. Were you doing business—did you have deposits in any other banks at that time?

Mr. SANDS. Yes, sir. I had——

Mr. KELLEY (interposing). Checking deposits?

Mr. SANDS. I had an account with the Franklin National Bank.

Mr. KELLEY. You had a checking account there?

Mr. SANDS. Yes, sir.

Mr. KELLEY. It might have been——

Mr. SANDS. It might possibly have been on that.

Mr. KELLEY. On the Franklin National Bank?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Then these checks given to these three men—Mr. Bolling, Mr. Cranor, and Mr. Sisler—were either on the Takoma Park Bank or the Franklin National Bank?

Mr. SANDS. Yes, sir; from that date—from about 1918.

Mr. KELLEY. From April, 1918?

Mr. SANDS. No, not April, 1918; September, 1918.

Mr. KELLEY. September, 1918?

Mr. SANDS. Yes, sir.

Mr. KELLEY. How about the note that was paid in June, 1918. You think that was the first one?

Mr. SANDS. June, 1918—I think—well, I was under the impression in my last testimony that the notes were dated in May, 19—in April, 1917, but it has been brought out here that it was May, 1918.

Mr. KELLEY. And for how long a time was the first note given?

Mr. SANDS. Six months.

Mr. KELLEY. So it was not paid until you were a customer of the Takoma Bank?

Mr. SANDS. It was paid about the 15th of September, I think.

Mr. KELLEY. And at that time you had no deposits at any place except the Takoma Bank and the Franklin National Bank?

Mr. SANDS. I had the Commercial then.

Mr. KELLEY. I am not talking——

Mr. SANDS (interposing). Yes, sir; I had checking accounts in all three of those.

Mr. KELLEY. At the Commercial, too?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Then it might happen that it was by a check on the Commercial——

Mr. SANDS. Yes, sir—up until——

Mr. KELLEY (interposing). Wait until I finish the question. Then it might have been that a check on the Commercial might have been used in the payment of these Downey transactions?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Let us get all that straight. You had checking accounts in three banks at the time this first note was cashed?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Commercial National——

Mr. SANDS (interposing). The Franklin.

Mr. KELLEY. The Franklin National and the Takoma Park?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And you paid these men in checks?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And those checks would be upon one or the other of those three banks?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Now, that is the fact, is it?

Mr. SANDS. That is the fact, as I remember it. I do not remember paying any cash at all; I do not remember that at all.

Mr. KELLEY. Now, at the time that Mr. Downey had handed you these notes, he insisted, then, did he, that the reason assigned for the notes should be given as you have stated here?

Mr. SANDS. Yes, sir.

Mr. KELLEY. For the service rendered in connection with getting him this loan of \$100,000.

Mr. SANDS. Of financing——

Mr. KELLEY (interposing). And financing?

Mr. SANDS. Of financing.

Mr. KELLEY. His two companies?

Mr. SANDS. Well, only one company.

Mr. KELLEY. You never did agree to finance either one of them, did you?

Mr. SANDS. No—no, I did not agree to finance them.

Mr. KELLEY. What was the largest credit that you ever agreed to furnish Mr. Downey or his company?

Mr. SANDS. I did not agree to furnish him any amount myself; it was not for that purpose.

Mr. KELLEY. You took it up with the credit committee of your bank?

Mr. SANDS. Yes; and they allowed him the \$100,000.

Mr. KELLEY. And they allowed him a credit of \$100,000?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Was that before or after he gave you the notes?

Mr. SANDS. He did not borrow any money for some time, so it must have been after that, because he did not borrow any money—he had some money placed on deposit, \$100,000. I do not remember when he borrowed the money.

Mr. KELLEY. Then he gave you these notes a long time before any arrangement was made at the bank for this \$100,000 credit.

Mr. SANDS. Yes, sir.

Mr. KELLEY. You are certain about that, are you?

Mr. SANDS. Yes; I am sure that he gave the notes in advance, because he did not borrow for some time.

Mr. KELLEY. These notes were given in May, 1918. When do you say the bank gave him this credit of \$100,000?

Mr. SANDS. I think it must have been in July, or something of that kind—June or July.

Mr. KELLEY. You swear to that positively?

Mr. SANDS. I can not swear to that positively, but that is my recollection. I can not say as to a date, because I have not got the dates, but it was made afterwards; the arrangement with the bank was made afterwards.

Mr. KELLEY. You are certain it was afterwards?

Mr. SANDS. Yes, sir.

Mr. KELLEY. You swear to that fact positively?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And it was not the same general transaction; there was some interval of time elapsing between the giving of these notes and the credit arrangement at the bank?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Was this credit at the bank arranged purely for strengthening Mr. Downey with the Shipping Board?

Mr. SANDS. Well, I suppose so, because he did not intend to use it—in fact, when it was first talked of with him he was going to give us a very substantial account.

Mr. KELLEY. What induced the bank—that is what I am getting at—to give him this \$100,000 credit which he could not use?

Mr. SANDS. Well, they may have subsequently agreed to let him check on it; and they were so pleased with the business, they had \$100,000 on deposits; the man carried a very good account, and I thought well of him, and I think the other people did, too; it was a very good account for Washington.

Mr. KELLEY. He did not have any deposit with the bank at the time this \$100,000 was arranged?

Mr. SANDS. Yes, sir.

Mr. KELLEY. How much did he have there then?

Mr. SANDS. I think he must have had \$50,000 there then; I can not say how much; he had possibly \$50,000 there of his original \$100,000.

Mr. KELLEY. That was funds he had deposited on his initial payment on the contract, was it not?

Mr. SANDS. I can not say; I think very likely, because the advance was made to him; I think very likely; I do not know.

Mr. KELLEY. That was a checking account which might disappear in a day?

Mr. SANDS. Yes, sir; but he had run an account there one or two months with a very substantial balance.

Mr. KELLEY. Was it usual for shipbuilding companies to run accounts in Washington banks?

Mr. SANDS. Well—

Mr. KELLEY (interposing). Shipbuilding companies located in New York and New England?

Mr. SANDS. No—well, we had some shipping accounts; we had one or two shipping accounts. They had had extra funds, and put money there with us.

Mr. KELLEY. Where are your canceled checks, Mr. Sands?

Mr. SANDS. I think I have them available in Washington. I have not brought my things here. I think I can get them.

Mr. KELLEY. You could get all the canceled checks?

Mr. SANDS. I think so; I have not destroyed any of them, and I should say so.

Mr. KELLEY. You could get all the canceled checks having anything to do with the disposition of the proceeds of these notes?

Mr. SANDS. I think so.

Mr. KELLEY. Will you furnish those, Mr. Sands, to the committee?

Mr. SANDS. It may take me a little time; that is all.

Mr. KELLEY. Yes; we will give you time.

Mr. SANDS. Yes, sir.

Mr. KELLEY. Where do you keep your papers in Washington?

Mr. SANDS. I left them in my office there; I live in New York City; I left them in Washington, and I never had them shipped here.

Mr. KELLEY. You still hold your office in Washington?

Mr. SANDS. No; I am located here now.

Mr. KELLEY. I know, but you have a room there, have you?

Mr. SANDS. What is that?

Mr. KELLEY. You have a room?

Mr. SANDS. Well, I had an office there in the Evans Building, and I left my papers there, and I communicated with the manager of the office—that is, the party I had with me in the office, and he said he had bundled up my papers all together there, and he wanted to know what I wanted done with them, very recently.

Mr. KELLEY. They are still there in the office which you formerly occupied?

Mr. SANDS. Yes, sir.

Mr. KELLEY. In thinking over my former question, as to whether or not these notes were sent to you by mail or handed to you personally by Downey, have you any better recollection now than you had awhile ago?

Mr. SANDS. No, sir; I have not.

The CHAIRMAN. Do you know a Mr. Robertson?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did you ever have any business dealings with him?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Who is he?

Mr. SANDS. Well, Robertson was formerly a clerk in the bank and went into the brokerage business with Bolling.

The CHAIRMAN. Went into the brokerage business with Mr. Bolling?

Mr. SANDS. Yes, sir.

The CHAIRMAN. When?

Mr. SANDS. I think it was 1916.

The CHAIRMAN. Are you connected with that firm?

Mr. SANDS. No, sir.

The CHAIRMAN. Have you ever had anything at all to do with it?

Mr. SANDS. Yes, sir.

The CHAIRMAN. What did you have to do with it?

Mr. SANDS. I furnished some money to them.

The CHAIRMAN. You furnished the money?

Mr. SANDS. Yes, sir.

The CHAIRMAN. What was the firm name?

Mr. SANDS. F. H. Connolly & Co.

The CHAIRMAN. F. H. Connolly?

Mr. SANDS. C-o-n-n-o-l-l-y.

The CHAIRMAN. Was he a member of it, too?

Mr. SANDS. Yes, sir; all three of them.

The CHAIRMAN. Was he a Washington man?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Well, did that firm sell out, close out its business?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Who took over its assets?

Mr. SANDS. They liquidated—they liquidated their assets and paid out and went out of business.

The CHAIRMAN. What was the occasion of their doing that?

Mr. SANDS. They were connected with the “leak,” and it hurt their business, so they went out of business.

The CHAIRMAN. Connected with the leak?

Mr. SANDS. Yes, sir.

The CHAIRMAN. What leak?

Mr. SANDS. I thought everybody had heard of the “leak.” It was some leak——

The CHAIRMAN (interposing). This committee has heard of some leaks on ships. [Laughter.]

Mr. SANDS. They were under investigation at the time. There was something coming out from the White House called the “leak.” It was a very famous leak.

The CHAIRMAN. You mean the Lawson leak investigation?

Mr. SANDS. I do not remember the Lawson—may have been Lawson leak investigation; I do not remember.

The CHAIRMAN. You mean the investigation had by a committee of Congress as to advance information——

Mr. SANDS. Yes, sir; that is it.

The CHAIRMAN (continuing). Alleged to have come from high official sources.

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did you have anything to do with the concern at that time?

Mr. SANDS. Only in the fact that I loaned them some money to enable them to start the stock exchange business; that is all.

The CHAIRMAN. You loaned them some money in order to enable them to start that stock exchange business?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did they give you a note?

Mr. SANDS. Yes, sir.

The CHAIRMAN. And did they ever pay it?

Mr. SANDS. They owe me a balance now.

The CHAIRMAN. That firm owes you a balance now?

Mr. SANDS. Yes, sir.

The CHAIRMAN. How much?

Mr. SANDS. About, let me see, I think it is about—the balance due me is about \$12,000 or \$15,000.

The CHAIRMAN. How many members were there in that firm?

Mr. SANDS. There were three members—Connolly, Robertson, and Bolling.

The CHAIRMAN. And those three men, you say, still owe you \$12,000 or \$15,000?

Mr. SANDS. Mr. Bolling does not owe me. Mr. Bolling withdrew immediately after this investigation, and I kept the obligation of the concern—of the remaining part of the concern.

The CHAIRMAN. You released him from any obligation on the part of the firm liability to you?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did you act in any capacity for that firm prior to its liquidating?

Mr. SANDS. No; I only furnished them money; that is all.

The CHAIRMAN. Was it a partnership or a corporation?

Mr. SANDS. A partnership.

The CHAIRMAN. And you did not participate in directing its affairs?

Mr. SANDS. Not in the least bit; I had nothing to do with it.

The CHAIRMAN. Or share in its proceeds?

Mr. SANDS. Not in the least; I had no interest in it whatever.

The CHAIRMAN. Or participate in any losses?

Mr. SANDS. No, sir.

The CHAIRMAN. Have you talked with anybody since Saturday last when you testified, on the long distance telephone, as to your testimony before this committee?

Mr. SANDS. No, sir.

The CHAIRMAN. Sure of that, are you?

Mr. SANDS. I do not think anyone has called me up. I have not received——

The CHAIRMAN. Have you called anybody up?

Mr. SANDS. No, sir.

The CHAIRMAN. This contract with the Downey concern, or the Providence Engineering Co., appears to have been dated, according to a copy the committee has here, the 14th day of March, 1918, for 10 ocean-going steel tugboats complete, at a price of \$285,000 for each. Do you know whether or not that was the contract which you say you assisted in securing?

Mr. SANDS. I could not say, I have not seen the contract, but I think that is.

The CHAIRMAN. March 14, 1918; you think that is it?

Mr. SANDS. I think so.

The CHAIRMAN. For 10 tugboats?

Mr. SANDS. Yes, sir.

The CHAIRMAN. There was a contract made on July 3, 1917, for 10 cargo carrying steel ships at \$155 per dead-weight ton for each of all said ships. Did you ever hear of any such contract as that?

Mr. SANDS. I do not remember hearing of it; no, sir.

The CHAIRMAN. Then if the contract of March 14, 1918, with the Providence Engineering Co., for 10 steel ocean-going tugs, is the one in which your services were secured, as you have related here, the Downey company had already a contract for 10 cargo ships, did they not?

Mr. SANDS. Well, you have said so; yes, sir, I have no doubt it is so; but I did not know it.

The CHAIRMAN. Well, assuming these to be actual copies of the contracts in existence?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Did you know at that time that the Downey company had a contract?

Mr. SANDS. I think so, but I do not remember now; I think so.

The CHAIRMAN. Did you ever have any transactions with the Downey Shipbuilding Corporation about getting some bending rolls from the Fleet Corporation?

Mr. SANDS. I do not recall it. Would you excuse me just a moment?

(A short recess was taken.)

The CHAIRMAN. Well, if the contract was signed on the 14th of March, 1918, with the Providence Engineering Corporation, a corporation organized under the laws of the State of Rhode Island, for 10 ocean-going steel tugboats complete, and these notes were given you, either handed to you or mailed to you by Mr. Downey, they were given the following day, were they not, March 15, 1918?

Mr. SANDS. Well, my recollection of that fact is that the notes were not delivered until some time afterwards.

The CHAIRMAN. But they were all dated the day after?

Mr. SANDS. They were dated; yes, sir.

The CHAIRMAN. March 15, 1918.

Mr. SANDS. Yes, sir. That is my recollection, because we did everything we could for him, without any reference to what he would pay or how much or how he would pay it.

The CHAIRMAN. And the credit of \$100,000 which was established at the Commercial National Bank, which was put on their books, was not established until July of 1918, according to your recollection?

Mr. SANDS. That is right; yes, sir.

The CHAIRMAN. But you are positive it was not established in March, 1918?

Mr. SANDS. Yes, sir. No, they never borrowed anything then.

The CHAIRMAN. I was asking you if you had any dealings with the Downey company with reference to securing some bending rolls for them from the Fleet Corporation?

Mr. SANDS. Well, I don't remember that, but I have this recollection, since you mention it, because it has been some years, you understand; that Mr. Cranor said that he was trying to get some bending rolls for the Downey Shipbuilding Co.; I do remember that now, and he got his friends down in the Shipping Board, I do not know who it was, to send some to Downey because they needed them in building ships. I remember that now, but I had forgotten it.

The CHAIRMAN. Well, did he ask you to help in any way in getting them?

Mr. SANDS. No, he did not ask me to help any, because I did not know anybody, but I had already introduced him to the Shipping Board people.

The CHAIRMAN. Mr. Bolling and Mr. Sisler?

Mr. SANDS. I introduced Mr. Cranor to them, but I did not remember that transaction at all.

The CHAIRMAN. Did you ever receive any payment or fee from the Downey Shipbuilding Corporation, Mr. Wallace Downey, or the

Providence Engineering Corporation, or anybody connected with either of those concerns, for anything you did or pretended to do in connection with securing the bending rolls?

Mr. SANDS. No, sir; I don't remember any fee at all.

The CHAIRMAN. Well, you don't remember; is that the best you can state?

Mr. SANDS. Well, that is absolutely the best I can state, because I really don't remember any other monetary transaction than this other that I mentioned.

The CHAIRMAN. Well, if you don't remember whether you received any fee or not, can you remember whether you divided any fee with anybody?

Mr. SANDS. No, I do not.

The CHAIRMAN. Can you say whether you did or not?

Mr. SANDS. Well, I can say that I have no recollection of the transaction whatsoever.

The CHAIRMAN. Did you ever have any interviews or conversations with Mr. R. W. Bolling with reference to having secured or assisted in securing some bending rolls for the Downey concern?

Mr. SANDS. I do not remember.

The CHAIRMAN. And later did you have any further conference with him with reference to dividing a fee which you had received for that?

Mr. SANDS. I do not recall it at all. I do not remember anything about it.

The CHAIRMAN. But you might have?

Mr. SANDS. Well, I might, but I absolutely don't remember it.

The CHAIRMAN. You might have assisted in getting the bending rolls?

Mr. SANDS. I did not assist, I know, because I did not know anything about that. The only assistance I could have rendered would be the formal introduction which I had given, that is all, and if they did it they did it on account of their friendship, friendly relations.

The CHAIRMAN. Are you able to state positively, Mr. Sands, whether or not anybody from the Downey Shipbuilding Corporation, the Providence Engineering Co., Mr. Cranor or Mr. Wallace Downey ever took up with you the matter of getting some bending rolls for their concern?

Mr. SANDS. They never did; no.

The CHAIRMAN. They never did?

Mr. SANDS. They never did.

The CHAIRMAN. You are positive as to that?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Now, are you able to state whether you ever received through Mr. Cranor, the Providence Engineering Corporation, the Downey Shipbuilding Corporation, Mr. Wallace Downey, or any other representative of either of those concerns any sum of money which was for services in connection with securing those bending rolls?

Mr. SANDS. I do not remember ever receiving anything at all.

The CHAIRMAN. Did you ever tender Mr. Bolling any sum of money which you stated was a part of a commission or gift or bonus

or payment for services on account of assisting in getting these bending rolls?

Mr. SANDS. No, sir.

The CHAIRMAN. Did you ever discuss that transaction with him at all?

Mr. SANDS. I do not remember it at all. This is news to me. I do not recall the circumstance at all.

The CHAIRMAN. Did you in the spring of 1918 introduce Mr. Cranor to Mr. Bolling, asking that he get certain pieces of machinery which the Fleet Corporation were to furnish the Downey Shipbuilding Co. in connection with the construction of vessels, and which, while promised to them, were going to be shipped to some other shipbuilding concern?

Mr. SANDS. Well, I think I had already introduced them, and I do remember talking about some bending rolls, but I don't remember anything more about them, except that I heard that they had gotten them, and they were very much gratified, that is what Mr. Cranor said; they were very much gratified that they had gotten the bending rolls, which they needed to work on their ships. I recall that now.

The CHAIRMAN. You recall that?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Do you recall that in the spring of 1918 you did introduce Mr. Cranor to Mr. Bolling?

Mr. SANDS. Yes, sir; I think that was the time.

The CHAIRMAN. Did you ask Mr. Bolling to see if he could help Mr. Cranor, having these bending rolls shipped to the Downey Corporation?

Mr. SANDS. I think it likely I did; yes, sir. I did not recall that—until you refreshed me on it.

The CHAIRMAN. Some time after that did you tell Mr. Bolling that you had received a fee for procuring these bending rolls, and offered to divide it with him?

Mr. SANDS. I do not recall it at all. I do not remember ever getting any fee for it.

The CHAIRMAN. Did he tell you that under no conditions would he accept any part of it? Did Mr. Bolling ever say that to you?

Mr. SANDS. I do not remember any such conversation.

The CHAIRMAN. Did you tell him that, as he had never charged you any profit on building your house, and he having waived it, that you would like to pay him what was a fair profit for the work he had done?

Mr. SANDS. I do not recall it.

The CHAIRMAN. You do not recall that?

Mr. SANDS. No, sir.

The CHAIRMAN. Can you say whether or not you ever said that or anything like it to Mr. R. W. Bolling?

Mr. SANDS. I do not think I ever said anything like that, because the house transaction had been closed two years at this time.

The CHAIRMAN. Well, it had been closed as far as the building was concerned, but it had not been closed as far as paying for it, had it?

Mr. SANDS. Yes, sir; it had been closed as far as paying for it.

The CHAIRMAN. In 1918?

Mr. SANDS. Yes, sir.

The CHAIRMAN. I thought you said you still had a note?

Mr. SANDS. Well, I paid it; I was paying the note myself. I did not count that I owed it to him, except that it was a note that he had indorsed.

The CHAIRMAN. Oh, you mean that he had received the pay?

Mr. SANDS. Yes.

The CHAIRMAN. Did he tell you that he thought \$500 would be very reasonable, if you wanted to pay it?

Mr. SANDS. I do not recall that at all.

The CHAIRMAN. Did you then pay him \$200, and later give him \$300 as a payment of profit on account of that house?

Mr. SANDS. I do not remember that certain transaction.

The CHAIRMAN. You do not remember it. Do you say you did not?

Mr. SANDS. Well, I would like to look at my books to see. I do not remember it; this is the first I have heard of it.

The CHAIRMAN. Have you written Mr. Bolling frequently?

Mr. SANDS. No.

The CHAIRMAN. Did you write him within two or three weeks?

Mr. SANDS. No; I do not think so. I wrote him a letter when that note came due the last time, and told him it was not convenient for me to pay any more than the interest. I do not remember when that was, possibly six weeks ago; and sent down the interest on the note to renew it, \$900.

The CHAIRMAN. You have renewed it several times?

Mr. SANDS. Well, I have always curtailed it, to this time.

The CHAIRMAN. Did you ever write an anonymous letter to the Shipping Board or the Department of Justice?

Mr. SANDS. I have never written an anonymous letter in my life. I can say that positively.

The CHAIRMAN. Did you ever threaten Mr. Bolling that if he did not intercede for you with the Department of Justice or other Government officials in helping to get you out of your difficulty, you would make it hot for him, or would expose him or would show him up?

Mr. SANDS. I had Mr. Bolling at my rooms on one occasion, and I told him that I thought he ought to help me and aid me all he could. I said that my friends were very much wrought up over it, and that it might bring more trouble to him than he could think of, and to me. I think that was about the conversation. I remember that conversation, and I think that letter which I got, which you exhibited here, was in answer to it, the next day, and I never did anything further. I was very much wrought up at the time, but so far as trying to do anything against him, I never undertook to do it.

The CHAIRMAN. Did you ever ask or suggest to anybody else that an anonymous letter be sent to the Government?

Mr. SANDS. Never. I never knew it, until you tell it now. I never knew anything about anonymous letters.

The CHAIRMAN. Did you ever meet any of the other officials of the Downey Shipbuilding Corporation?

Mr. SANDS. Yes, sir; I met, I think, the treasurer, Mr. Hussey.

The CHAIRMAN. Who?

Mr. SANDS. The treasurer; I think his name is Mr. Hussey.

The CHAIRMAN. Is he treasurer of the Downey or of the Providence Engineering Co.?

Mr. SANDS. Oh, no; that is, of the Providence Engineering.

The CHAIRMAN. When did you first know that the Downey interests were connected with the Providence Engineering Co.?

Mr. SANDS. I did not know it until after they got this contract; I thought it was identical, until after that.

The CHAIRMAN. Upon what did you base your representation to the credit manager, Division of Operations, Emergency Fleet Corporation, March 14, 1918, that the Providence Engineering concern were amply able to fulfill their contract and were entitled to confidence?

Mr. SANDS. Well, I looked at the report at the time, looked over their statements, and then I knew that Mr. Downey was connected with it, and I had every assurance that they were a reputable concern, and that they had been in the engine-building business for some time, and I think had been reorganized, and I thought Mr. Downey's connection with it and the class of business that he did would entitle them to credit.

The CHAIRMAN. Did you know the credit manager of the Fleet Corporation?

Mr. SANDS. No, sir.

The CHAIRMAN. Did you know any other official of the Fleet Corporation?

Mr. SANDS. Oh, I suppose I knew them incidentally, but I do not recall any particular ones.

The CHAIRMAN. You stated last Saturday, Mr. Sands, that prior to this arrangement being made to get this contract for the Downey concern, Mr. Bolling and Mr. Sisler had visited your rooms at the Willard Hotel frequently; is that so?

Mr. SANDS. Yes, sir.

The CHAIRMAN. What were they doing there?

Mr. SANDS. Well, let me get that question before you put it down. Did you say before this contract?

The CHAIRMAN. Yes, sir.

Mr. SANDS. Well, my rooms were almost an office during the war, and I do not think that they ever came to see me, in connection with shipping matters, until this contract came up, until Mr. Cranor came down. In fact, I did not meet Mr. Sisler until after Mr. Cranor came down; then I introduced him to Mr. Bolling, and he introduced me to Mr. Sisler.

The CHAIRMAN. That was in March, 1918?

Mr. SANDS. Yes, sir.

The CHAIRMAN. And this arrangement, you say, was entered into, and in July this credit of \$100,000 was extended. What was the occasion of their visiting you frequently at the Willard Hotel?

Mr. SANDS. Well, I do not know that they came for anything else, unless it would be on these shipbuilding contracts. There were a number of shipbuilding contracts going on all the time. We had one at Quantico. I do not recall whether they helped me in that or not, but they may possibly have helped.

The CHAIRMAN. Do you know whether Mr. Sisler or Mr. Bolling helped your concern get the contract at Quantico?

Mr. SANDS. I do not know whether they did or not.

The CHAIRMAN. Do you know whether they helped the Downey concern or the Providence Engineering concern get their contract?

Mr. SANDS. I thought they did; I do not know whether they did.

The CHAIRMAN. Well, now, they came and visited you frequently while this was going on. Did they not say what they had done?

Mr. SANDS. They never told me.

The CHAIRMAN. Or whom they were seeing?

Mr. SANDS. They never told me; no.

The CHAIRMAN. Well, were you not interested to know, Mr. Sands?

Mr. SANDS. Yes; I was interested, but I had a number of interests, and they would come and talk to me and consult with me, but that is all. I do not know what they did; I do not know what they did.

The CHAIRMAN. Did you never ask them, "How is this thing going?" Or "What are the chances?" Or "Who have you seen or what are you doing?"

Mr. SANDS. I very likely asked them what the chances were; but I do not think I asked them who they saw, because they knew who to see; I did not.

The CHAIRMAN. When you asked what was the chances, do you remember what they told you?

Mr. SANDS. It was encouraging. I do not remember; no.

The CHAIRMAN. How long was it before you were finally advised that the contract was to be awarded or was awarded?

Mr. SANDS. I can not say. I will have to get you gentlemen to excuse me again.

(A short recess was taken.)

The CHAIRMAN. Mr. Sands, when you told Mr. Bolling that if he did not come to your rescue it might be very unpleasant for all of you, what did you have in mind?

Mr. SANDS. Well, I thought with these commissions that he had gotten, it might be very disagreeable; that is what I thought.

The CHAIRMAN. Did you have in mind that if he did not come to your rescue you would disclose information about it?

Mr. SANDS. Well, really, it was somewhat of a threat, but I never intended to do it and I never did it, because this thing is just as disagreeable to me, of course, it is as disagreeable to me as it is to him. I regret it very much. I never said anything to anyone about any of the transactions involved.

The CHAIRMAN. But you did tell Mr. McCann and Mr. Schwarzkopf?

Mr. SANDS. I did, because——

The CHAIRMAN. The first people that ever spoke to you about it?

Mr. SANDS. Surely, but they had gotten it already from friends of mine.

The CHAIRMAN. That is, they told you they had.

Mr. SANDS. Yes, but I judged they had.

The CHAIRMAN. Well, you judged they had simply from their telling you so?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Now, what friends of yours did they tell you they had gotten it from?

Mr. SANDS. Well, they told me that they had heard from, had talked to, I think they said to Sisler; I think they said they had

talked to Mr. Fuller; yes, he mentioned Mr. Fuller; and they also mentioned Mr. Murtaug, who really is not a friend of mine.

The CHAIRMAN. Murtaug?

Mr. SANDS. Yes.

The CHAIRMAN. Who is he?

Mr. SANDS. Well, he is one who undertook to help me at the time when my trouble came. He came down, a friend of Mr. Fuller's, came down and volunteered to help me, and I was anxious to get all the help I could.

The CHAIRMAN. Oh, yes.

Mr. SANDS. And he very likely heard our conversations. I do not know how he did; I regretted it very much.

The CHAIRMAN. Can you give us the names of any other parties that have any knowledge or have in their possession facts relating to these transactions about which you have been interrogated?

Mr. SANDS. Those are the only ones I know of, possibly Mr. Fuller and Mr. Murtaug, and they got it from coming into my rooms frequently at the time I was endeavoring to get my indictment quashed, and they offered to help me, and they very likely got it there. I think that is all, as far as I know.

The CHAIRMAN. Do you say, Mr. Sands, that you received \$40,000, of which amount \$25,000 was distributed; is that the correct amount?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Between yourself, Mr. Cranor, Mr. Sisler, and Mr. Bolling?

Mr. SANDS. Yes, sir.

The CHAIRMAN. And that the distribution was made because of the receipt by the Downey Shipbuilding Corporation or the Providence Engineering Corporation of a contract from the Shipping Board, in the procurement and award of which Mr. Sisler and Mr. Bolling were presumed to have assisted?

Mr. SANDS. Yes, sir.

The CHAIRMAN. And that your testimony here is the truth and not prompted by any desire for revenge upon Mr. Sisler or Mr. Bolling, or to blackmail them or hold them up to scorn and ridicule?

Mr. SANDS. Yes, sir; I have no desire of that kind whatsoever.

The CHAIRMAN. You are not prompted by any such motive?

Mr. SANDS. I am not.

The CHAIRMAN. And that you have told the committee all the facts that you have in your possession?

Mr. SANDS. Yes, sir.

The CHAIRMAN. And that you are willing to make a search and produce the checks which you used in making these payments?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Have you any questions, Mr. Kelley?

Mr. KELLEY. Just one or two more. This Providence Engineering contract, the records show, was awarded on the 14th of March, 1918. About how long prior to that time did Mr. Cranor and Mr. Sisler and Mr. Bolling and yourself have this under consideration, with the hope that you could remove any objections that the credit department might have had?

Mr. SANDS. I suppose it was 30 days; 30 days at least.

Mr. KELLEY. You were working at it for 30 days?

Mr. SANDS. Yes, sir.

Mr. KELLEY. The credit department made some objections to the Providence company, as you understand it?

Mr. SANDS. So I understood, through Mr. Cranor.

Mr. KELLEY. Yes. And about 30 days after that——

Mr. SANDS. I should say 30 days; yes, sir; it may have been a little more, but it was not any less.

Mr. KELLEY (continuing). The credit department waived their objections?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And the contract was awarded?

Mr. SANDS. Yes, sir.

Mr. KELLEY. On the date that the contract was awarded, March 14, 1918, you wrote this letter to the credit department as vice president of the Commercial National Bank of Washington?

Mr. SANDS. Yes, sir.

Mr. KELLEY. So that presumably your letter, written on the same day that the contract was awarded, had nothing to do with the awarding of the contract?

Mr. SANDS. It looks like it.

Mr. KELLEY. You have assumed that all along, have you not?

Mr. SANDS. Well, I assume it now, yes, sir; I did not know that it was the——

Mr. KELLEY. You talked with the credit manager, talked it over before you wrote the letter. What were his objections?

Mr. SANDS. I do not remember ever talking to the credit man.

Mr. KELLEY. Well, now, just carefully review that in your mind.

Mr. SANDS. No; I do not.

Mr. KELLEY. Did you not have a conversation with the credit manager prior to the 14th of March?

Mr. SANDS. I do not remember ever talking to him. I do not remember him; I do not know him.

Mr. KELLEY. Well, did Mr. Bolling say he had talked with the credit manager?

Mr. SANDS. I can not say that he did. I do not know. Mr. Cranor very likely did.

Mr. KELLEY. Which one of these men did talk with the credit manager?

Mr. SANDS. Mr. Cranor very likely did. Mr. Cranor talked with him; I did not. Mr. Cranor did not have anything to do but attend to these things, and I was very busy. I do not think I ever met him; if I did, I do not remember it.

Mr. KELLEY. Was Mr. Atkins the credit manager at that time?

Mr. SANDS. I do not know him; I do not remember.

Mr. KELLEY. Don't you know Mr. Atkins?

Mr. SANDS. No.

Mr. KELLEY. Did you ever meet a man by the name of Atkins, a credit manager of the Emergency Fleet Corporation?

Mr. SANDS. Not to my knowledge. I don't remember him at all. I don't know him, don't remember him; I don't know who he is.

Mr. KELLEY. Did Mr. Cranor say to you that if you would write this letter to Mr. Atkins, or the credit manager, he thought that would insure the awarding of the contract?

Mr. SANDS. I think he did; yes, sir.

Mr. KELLEY. He told you that. And thereupon you wrote the letter of March 14?

Mr. SANDS. I think that is the case; yes, sir.

Mr. KELLEY. For which you received these \$40,000 of notes a little later?

Mr. SANDS. For the awarding of the contract; yes, sir.

Mr. KELLEY. And the notes were dated on the 15th of March?

Mr. SANDS. Yes; that is right.

Mr. KELLEY. And the contract awarded on the 14th?

Mr. SANDS. Well, I did not know about the dates.

Mr. KELLEY. And your letter written on the 14th of March?

Mr. SANDS. Well, I take that to be correct. I have not seen it.

Mr. KELLEY. What I mean to say is that the letter which you wrote on the 14th of March, and the awarding of the contract on the 14th of March, and the dating of the notes on the 15th of March, would all indicate that it was one transaction?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Then you know, as a matter of fact, from Mr. Cranor and your discussion at the time, that there was a disposition to hold up this contract and not award it?

Mr. SANDS. Well, I did not think——

Mr. KELLEY. For some 30 days prior to the time that it was awarded?

Mr. SANDS. Well, I did not think that it was held up, but it took about that long to get things through. I do not think it was held up on that account.

Mr. KELLEY. Did not Mr. Cranor tell you that the credit of the company had to be established?

Mr. SANDS. I do not recall that he did.

Mr. KELLEY. Well, why would you write a letter to the Shipping Board to establish the credit of the company, unless somebody had questioned the credit of the company?

Mr. SANDS. Because they said that was perfunctory; that they had to have these credit letters, along with other letters.

Mr. KELLEY. Why would you expect to get \$40,000 for writing a perfunctory letter?

Mr. SANDS. I did not expect to get it. I did not count on a fee at that time; I did not expect to get it. I did not know what the fee was; I had made no claim to any fee up to that time. I did not even know about the amount of it.

Mr. KELLEY. The notes were dated the very next day?

Mr. SANDS. I know, but they were not delivered for some time. In fact, I did not know the amount of the fee at all; I did not know until afterwards. It was an arrangement made with Mr. Cranor; I did not know what the arrangement was.

Mr. KELLEY. But you knew you were to have some fee?

Mr. SANDS. I know that we expected to get something out of it; yes, sir.

Mr. KELLEY. "We"—who?

Mr. SANDS. Well, I have enumerated the four that expected to get it.

Mr. KELLEY. The other four parties; yes.

Mr. SANDS. Yes.

Mr. KELLEY. About how long was the question of establishing a credit for the Providence Engineering Co. discussed in your bank?

Mr. SANDS. I do not think it was discussed but a very little while; it might have been four or five days; something like that.

Mr. KELLEY. And it was granted almost immediately after it was asked for?

Mr. SANDS. Yes, sir. That was understood; yes, sir. We gave it to them almost at once.

Mr. KELLEY. In this letter which you wrote on the 14th of March you said that you were about to grant that credit.

Mr. SANDS. We discussed that at the time, too.

Mr. KELLEY. But you did not put it up to the bank officials until June?

Mr. SANDS. Not until they asked for the loan. I did not put up the amount of the loan until they asked for it.

Mr. KELLEY. You had discussed this question with Mr. Cranor and Mr. Sisler and Mr. Bolling?

Mr. SANDS. I judge I did; I do not recall.

Mr. KELLEY. But at the time the contract was awarded there was no credit established in the bank?

Mr. SANDS. No loan had been asked for.

Mr. KELLEY. There was not credit established?

Mr. SANDS. No credit established; no, sir.

Mr. KELLEY. You did not give them this \$100,000 credit?

Mr. SANDS. No. We were told that we would have a very large deposit, of something like half a million dollars, they told us.

Mr. KELLEY. I know. I am talking now about the letter which you wrote.

Mr. SANDS. Yes, sir.

Mr. KELLEY. Which got this contract from the Shipping Board?

Mr. SANDS. Yes, sir.

Mr. KELLEY. In that letter you said that you were going to arrange for a credit of \$100,000?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Had you at that time taken it up with your board?

Mr. SANDS. I had mentioned it to my committee, that we were going to get this good account, this big account, and we would have to lend them, give them a line of discount. I had mentioned it to them at the time.

Mr. KELLEY. And your committee consented to this loan of \$100,000, which was tied up?

Mr. SANDS. Yes, sir.

Mr. KELLEY. In the hope that they would get large deposits later on?

Mr. SANDS. No; we had already gotten the deposits then. When the loan was made we had already gotten the deposits, when the actual loan was made.

Mr. KELLEY. And your letter to the credit manager of the Shipping Board, that you were willing to do that, was an inducement, was a circumstance which had considerable to do, undoubtedly, with the award of the contract?

Mr. SANDS. Yes, sir; I think so.

Mr. KELLEY. Of course, in the letter which you wrote, you were speaking as an officer of the bank, rather than personally, were you not?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And the credit manager of the Shipping Board, of the Emergency Fleet Corporation, so understood it?

Mr. SANDS. I think so.

Mr. KELLEY. But you did not tell him that this loan that you were going to make was going to be tied up, in such a way that the corporation could not use the money?

Mr. SANDS. No; I did not tell him that. In fact, as I understood it, it was only, as I have explained a little while ago, to get their cash assets appear better relative to their liabilities.

Mr. KELLEY. Somebody must have come to you on the day that the contract was awarded, with a pretty urgent request, did they not. that this letter be written right away?

Mr. SANDS. Well, no one but Cranor. Mr. Cranor very likely did. I never saw any official of the Shipping Board at all that day; I do not remember seeing him.

Mr. KELLEY. Or within a day or two?

Mr. SANDS. I do not remember seeing them at all.

Mr. KELLEY. Did Mr. Sisler say it was necessary for him to do this?

Mr. SANDS. No.

Mr. KELLEY. Who did?

Mr. SANDS. Mr. Cranor said so.

Mr. KELLEY. Nobody else?

Mr. SANDS. Nobody else, that is all.

Mr. KELLEY. Did no other person ask you to write that letter?

Mr. SANDS. I do not recall anybody else asking me but Mr. Cranor.

Mr. KELLEY. Did not the credit manager ask you for it?

Mr. SANDS. I do not think I ever saw the credit manager.

Mr. KELLEY. Did he not write you a letter asking you for it?

Mr. SANDS. I do not recall that. If he did I do not remember it.

Mr. KELLEY. Well, did you not say here in this letter, "Referring to your letter of March 8," which is a week before?

Mr. SANDS. Well, then if he did, then he did. I did not remember that; I have not read that.

Mr. KELLEY. The credit manager wrote to you asking you for this letter?

Mr. SANDS. Yes. Well, I have not read the paper, and I did not know what it was. I didn't hardly read my letter, but if I referred to a letter then he did write me a letter asking what I would do for the company.

Mr. KELLEY. About a week before the contract was awarded?

Mr. SANDS. Yes; as it happens it was about the 8th. I did not remember it, though. I had not read the papers, and I did not know what was in it or what was claimed.

Mr. KELLEY. Did the Downey Shipbuilding Co. or Mr. Downey personally, or the Providence Engineering Co., ever pay you anything except by way of notes?

Mr. SANDS. That is all they ever paid me?

Mr. KELLEY. Never paid you a check?

Mr. SANDS. No.

Mr. KELLEY. Never gave you a check?

Mr. SANDS. Never gave me any check.

Mr. KELLEY. Never gave you any cash?

Mr. SANDS. No; never.

Mr. KELLEY. And these are the only notes they ever gave you?

Mr. SANDS. The only notes; yes, sir.

Mr. KELLEY. Where did Mr. Cranor come from, originally?

Mr. SANDS. Well, originally, he came from Georgia, I think.

Mr. KELLEY. Do you know whether or not he had ever known Mr. Sisler before this time?

Mr. SANDS. No; he had never known him until I got this introduction.

Mr. KELLEY. He had known you a long time?

Mr. SANDS. Yes, sir; I have known him for nearly 20 years, I guess.

Mr. KELLEY. Do you know whether or not Mr. Cranor knew Mr. Bolling before this time?

Mr. SANDS. He did not.

Mr. KELLEY. He did not?

Mr. SANDS. No, sir.

Mr. KELLEY. You introduced——

Mr. SANDS. I introduced both of them.

Mr. KELLEY. You introduced Cranor to Bolling?

Mr. SANDS. I introduced Cranor to Mr. Bolling, and I think he introduced him to Mr. Sisler.

Mr. KELLEY. You are sure about that?

Mr. SANDS. Well, I would not say whether I introduced him to Mr. Sisler or whether Mr. Bolling, but that was my recollection.

Mr. KELLEY. But you are sure that——

Mr. SANDS (interposing). That is the way the introduction happened. I think it more than likely that I introduced him to Mr. Bolling, and Mr. Bolling introduced him to Mr. Sisler, because I knew Mr. Sisler very slightly.

The CHAIRMAN. Don't you know that Mr. Bolling and Mr. Cranor were acquainted with each other and had been for years before you ever met either of them?

Mr. SANDS. I don't think so; I don't know, but I don't think so; I don't think he ever knew him. I am sure as anything I can be that they never knew each other until I introduced them.

The CHAIRMAN. You say you introduced them to each other?

Mr. SANDS. Yes, sir.

The CHAIRMAN. In your rooms at the Willard Hotel?

Mr. SANDS. I can not say the place, but I think that is where I introduced them.

The CHAIRMAN. Anything further, Mr. Kelley?

Mr. KELLEY. I don't think so.

The CHAIRMAN. About when do you think you could produce those checks for us?

Mr. SANDS. I would like a week, because there are a good many checks, you know.

The CHAIRMAN. Could you have them for the committee by December 6?

Mr. SANDS. I will try my best; yes, sir.

Mr. KELLEY. Between the time this contract was executed and the 1st of May following, did you make a demand on Mr. Cranor or Mr. Downey?

Mr. SANDS. I never did.

Mr. KELLEY. For the payment?

Mr. SANDS. No, sir.

Mr. KELLEY. Mr. Cranor entirely?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And his interest in the transaction was sufficient, so that he would be apt to look after it?

Mr. SANDS. Yes; I never——

Mr. KELLEY. What was Mr. Cranor to receive, again?

Mr. SANDS. He was to receive \$6,250.

Mr. KELLEY. That is a quarter of \$25,000?

Mr. SANDS. Yes.

Mr. KELLEY. That he was to receive beyond that?

Mr. SANDS. \$15,000.

Mr. KELLEY. \$15,000?

Mr. SANDS. Yes.

Mr. KELLEY. So that he was to get out of this transaction——

Mr. SANDS. If the notes were made; yes, sir——

Mr. KELLEY. \$20,000?

Mr. SANDS. \$15,000 and this.

Mr. KELLEY. \$21,250?

Mr. SANDS. Yes, sir.

Mr. KELLEY. But you trusted it to him to get the notes taken——executed and delivered?

Mr. SANDS. Well, we did not expect them to be paid in notes, we thought——

Mr. KELLEY. That it would be paid in cash?

Mr. SANDS. That it would be paid by cash.

Mr. KELLEY. You expected it to be paid in cash?

Mr. SANDS. Yes.

Mr. KELLEY. Did you protest against the payment in notes?

Mr. SANDS. Not vehemently.

Mr. KELLEY. What did Mr. Cranor say when notes was the best he could do?

Mr. SANDS. I can not recall his conversation.

Mr. KELLEY. In general, the substance of it.

Mr. SANDS. I think he was disappointed, he said they were trustworthy—that is, the firm was good and the notes were good.

Mr. KELLEY. He was disappointed that he didn't have the cash for it?

Mr. SANDS. Yes, sir; I think so.

Mr. KELLEY. You know whether or not he ever got his \$15,000?

Mr. SANDS. Well, he did not get it because I didn't get it either. I advanced him money all the time; in fact, I had loaned him money prior to that, and whenever he needed money he came to me for it. He didn't ever get his \$15,000; no.

Mr. KELLEY. Did he get that \$6,250?

Mr. SANDS. Well, I don't know that he got that in any single sum; he got about \$10,000, because I would pay him along all the time.

Mr. KELLEY. Why would you pay him along all the time after the \$6,250 had been paid out?

Mr. SANDS. Well, he was always accustomed to come to me, and I always took care of him.

Mr. KELLEY. What is that?

Mr. SANDS. I was always accustomed to take care of him, whenever he needed any money; he came to me and I loaned him money before, and he borrowed money off me for years.

Mr. KELLEY. Did he ever settle up?

Mr. SANDS. He never settled up because he never asked me; because he knew he had overdrawn.

Mr. KELLEY. Did you ever ask him to straighten up his account?

Mr. SANDS. No; I didn't think it is worth while.

Mr. KELLEY. He is not collectible?

Mr. SANDS. I don't think so.

Mr. KELLEY. Why would you loan him money all along without security?

Mr. SANDS. Well, we had been intimate nearly 20 years—we had been friends for nearly 20 years, and I had had relations with him, and he would always come across in a way, and after a while he would get more and more on the debit balance, quite a little more, and I never collected up anywhere near; finally I discounted a note for him, about \$5,000, which was not paid, which practically made up the difference.

Mr. KELLEY. When you got this first note—proceeds of this first note in your hands—why didn't you apply it on all these accounts?

Mr. SANDS. I practically did; I practically did, except that I advanced to him in the meanwhile.

Mr. KELLEY. Then you really did not give him the \$6,250 in one sum?

Mr. SANDS. No; not in one sum.

Mr. KELLEY. Do you remember how much you paid him at that time?

Mr. SANDS. I can not remember.

Mr. KELLEY. Was it as much as \$1,800?

Mr. SANDS. I think very likely it was as much as \$1,800.

Mr. KELLEY. About that?

Mr. SANDS. I think so, I am—I could not say positively, but I can find out.

Mr. KELLEY. That kind of squared you and Mr. Cranor up, didn't it?

Mr. SANDS. It did, except that later on he got \$5,000 more from me; I was very easy.

Mr. KELLEY. You had another note?

Mr. SANDS. Yes.

Mr. KELLEY. You had another \$10,000 note?

Mr. SANDS. Yes; but he was not to be—understand that he was not alone to get \$6,250 altogether, but he got a great deal more than that.

Mr. KELLEY. He got about \$10,000 altogether?

Mr. SANDS. Yes.

Mr. KELLEY. Mr. Sisler got \$5,000?

Mr. SANDS. He got this \$5,000 note, I can not remember, I think Mr. Sisler altogether got \$20,000.

Mr. KELLEY. How much?

Mr. SANDS. Twenty thousand dollars I think he got altogether.

Mr. KELLEY. Twenty thousand dollars you think he got altogether?

Mr. SANDS. Yes.

Mr. KELLEY. That was on account of the sale of the ship, in addition?

Mr. SANDS. Yes.

Mr. KELLEY. He was satisfied wasn't he with the transaction?

Mr. SANDS. I think so, yes; he never made any complaint.

Mr. KELLEY. Never made any complaint?

Mr. SANDS. No, sir.

Mr. KELLEY. Was Mr. Bolling satisfied?

Mr. SANDS. I suppose Mr. Bolling was satisfied, but he didn't get but very little money because he would have gotten it—that is, he would have, I would have paid him if he would take it, you see?

Mr. KELLEY. What was the date of your indictment?

Mr. SANDS. September 30, 1918.

Mr. KELLEY. Almost the same time you cashed this first note, wasn't it?

Mr. SANDS. It was due on the 15th.

Mr. KELLEY. When did you cash it?

Mr. SANDS. I discounted it, I think, in June; he got money in advance on one note. The notes ran so long you could not discount them. I got the money in June.

Mr. KELLEY. Was it June that you paid these different parties?

Mr. SANDS. I think so, I think it was along in June.

Mr. KELLEY. June, 1918?

Mr. SANDS. Yes, sir.

Mr. KELLEY. You did that before the note was paid?

Mr. SANDS. Before it was paid; yes, sir.

Mr. KELLEY. Why did you do that?

Mr. SANDS. Well, I had gotten some money, and I felt sure that the note would be paid, and if he needed any money I was always, sorry to say, kind of a private banker for all my friends; they used to come to me for money and I advanced it to them.

Mr. KELLEY. So you credited them up with the amount which they ultimately ought to receive, and then let them borrow of you along, against that amount?

Mr. SANDS. Yes.

Mr. KELLEY. Is that the way you handled it?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And you did that because that would be borrowing, you thought, rather than dividing the money?

Mr. SANDS. In a measure that would be so.

Mr. KELLEY. That was your arrangement, was it?

Mr. SANDS. So, if the thing had been all paid at once, they would have gotten their share of it at once, but it was not paid that way.

Mr. KELLEY. Did you figure that it would be harder to trace, if it was paid in small sums along?

Mr. SANDS. I did not figure that.

Mr. KELLEY. Did they, so far as you know?

Mr. SANDS. Not as far as I know.

Mr. KELLEY. Did they request that it be held by you and paid in small sums?

Mr. SANDS. I don't remember any such request.

Mr. KELLEY. You don't remember any such request?

Mr. SANDS. No.

Mr. KELLEY. Was there any talk about that at all?

Mr. SANDS. I don't remember any such conversation.

Mr. KELLEY. And that is the way you handled it?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Whenever they came in and asked for some money, you advanced it to them against these credits?

Mr. SANDS. Yes; that is right.

The CHAIRMAN. Well, at any time during the negotiations, did it occur to you that it was rather a questionable proceeding for officials of the Shipping Board to receive monies for assisting in awarding a contract to some particular corporation?

Mr. SANDS. I did not consider it at the time.

The CHAIRMAN. Never thought of that?

Mr. SANDS. I never thought of that; no, sir.

The CHAIRMAN. Thought it was perfectly legitimate to pay a Shipping Board man money for helping a concern get a contract?

Mr. SANDS. Well, I thought so.

The CHAIRMAN. Did you ever hear of any of these other parties who were discussing or conferring with you relative to this money express themselves as to this proceeding as being somewhat questionable?

Mr. SANDS. Will you state that question again?

The CHAIRMAN. Will you read the question, Mr. Stenographer?
(Question repeated by the reporter.)

Mr. SANDS. No.

The CHAIRMAN. Had nobody that you recall ever stated that the matter must be handled carefully and the tracks must be covered up, so to speak?

Mr. SANDS. Never had any such talk.

The CHAIRMAN. Never heard of anything like that?

Mr. SANDS. No, sir.

The CHAIRMAN. When did it first occur to you that there might be something improper in a Shipping Board official receiving money from a corporation which secured a contract for constructing ships for the Shipping Board?

Mr. SANDS. When did it occur to me?

The CHAIRMAN. Yes.

Mr. SANDS. Well, I hadn't it brought to my attention at all.

The CHAIRMAN. Have you got any idea or opinion on the subject now?

Mr. SANDS. Yes.

The CHAIRMAN. What is it?

Mr. SANDS. Why, I think it was questionable and bad.

The CHAIRMAN. You got that opinion now?

Mr. SANDS. Yes.

The CHAIRMAN. How long have you held it?

Mr. SANDS. I have held it for some time.

The CHAIRMAN. How long, Mr. Sands?

Mr. SANDS. At the time these things were going on, I assisted a great many people without any compensation at all. My room was almost a clearing house for assistance to people without compensation, and in this case it was brought out, that this was a fair proposition, that we will get this money. These were friends of mine and I was very willing to divide with them what I got. That is the truth of it. Now, whether it was right or not, I did not consider.

I was, at the time, very extremely busy. I had the Anchor Plant which was building, I had two shipping companies, and altogether I was so engaged that I really did not consider the ethics as I should have done.

The CHAIRMAN. At the time Mr. McCann and Mr. Schwarzkopf came to see you, you had some idea then that the whole of the transaction was questionable and improper, didn't you?

Mr. SANDS. Well, I had an impression then that any more newspaper notoriety would be very harmful to me. I have tried to overcome what—the position I was in in every way and I was just on the eve of getting some position; I had nothing to do, my credit was gone. At one time I was able to borrow \$100,000 at one clip apart from my own bank. I had good credit and had money. And these things had so hurt my credit, and I was just on the eve of getting something which would enable me to live, and I thought if this thing came out, whether true or not, or whether it affected anybody or not, it would just throw me out again, and that is what I meant by what I talked to Mr. McCann and Mr. Schwarzkopf, because I hated the newspaper notoriety.

The CHAIRMAN. You thought if this came out it would hurt you?

Mr. SANDS. Yes, sir; at that time.

The CHAIRMAN. And yet you told the whole story?

Mr. SANDS. Yes, sir.

The CHAIRMAN. To these two gentlemen?

Mr. SANDS. I told them because they seemed to have it anyway, and I thought it would be better for me to tell it. It was probably improper to bare or to tell it, but I had to tell the whole thing.

The CHAIRMAN. I don't know but what I asked you to look at that photostat copy there. Will you again glance over that, Mr. Sands, and see if that is a photostat copy of a statement in affidavit form which was presented to you and which you declined to sign upon advice of your counsel? [Handing photostat to witness.]

Mr. SANDS. Yes, sir.

The CHAIRMAN. And that photostat copy shows certain insertions made in writing, the document itself having been in typewriting merely. Are these insertions in your handwriting?

Mr. SANDS. Yes, sir.

The CHAIRMAN. The one on the margin of the second page, is that yours?

Mr. SANDS. Yes, sir; there may be some errors in dates in those things, because, you see, this was asked suddenly.

The CHAIRMAN. No; I am asking now if this is a photostat copy of the document which you declined to sign?

Mr. SANDS. Yes, sir.

The CHAIRMAN. Now, you said there may be some errors in the dates.

Mr. SANDS. Yes; because the interview was sudden, without my—two years later, and I could not remember every date.

The CHAIRMAN. But aside from some errors—possible errors as to dates—are the statements which were contained in that document in affidavit form, of which this is a photostat copy, true and correct?

Mr. SANDS. Yes, sir.

The CHAIRMAN. We will have this put into the record at this point:

A F F I D A V I T

City of Washington)
 District of Columbia) SS.

Tucker E. Sands, being duly sworn, deposes and says:

I reside at 2139 Wyoming Avenue in the City of Washington.
 Country of D.C. State of _____; I am married
 and have a family who live with me at that address; I am 43
 years of age; I am ^{not} engaged in the business as but have any
~~with the _____ Company, which has its offices in the~~
Office in Evans Building, Washington, D. C.; From Apr 1911 until
Sept 30, 1917, I was connected with the Commercial
 National Bank of Washington, D. C. as Vice-President; prior
 to Apr 15 1917, I was on terms of intimacy with
 R. William Bolling and Lester Sieler, both of whom
 were connected with the United States Shipping Board, of
 which Board Lester Sieler was then Secretary, Bolling
~~being the Assistant Treasurer.~~

I was then residing at the New Willard Hotel in the
 City of Washington, and there became acquainted with another
 guest of the house named John Craner; I soon became intimate
 with Craner and quite freely discussed with him my relations
 with Messrs. Bolling and Sieler; subsequently, Craner informed
 me that he was an agent for Wallace Downey, who was then seeking
 a shipbuilding contract from the United States Shipping Board.
 Mr. Craner asked me to use my influence and acquaintance with
 Messrs. Bolling and Sieler to effectuate his plans, and in-
 formed me that there would be a suitable commission paid me
 for my services.

I introduced Craner to Sieler and Bolling and an

-2-

agreement was entered into whereby we were to receive a commission for our services in procuring the letting of a contract by the Shipping Board to Downey, said commission being \$40,000, the same to be divided among us in the following manner: \$25,000 was to be paid in one lot and equally divided in sums of \$6,250 for each of the four of us, Sisler, Bolling, Craner and myself; the remaining \$15,000 was to go to Craner. During the negotiations Mr. Downey came to Washington and was introduced to me by Mr. Craner. He ratified the agreement whereby \$40,000 compensation was to be paid, but provided that such payments were to be made by notes bearing the date of April 15, 1917, in amounts of \$10,000 each and maturing in six months, nine months, twelve months and fifteen months respectively; but Mr. Downey insisted that the ostensible consideration for these notes should be my services in procuring a loan of money for him.

*Downey subsequently
obtained
a loan of
\$100,000
from the
Bank
agreeing
to leave it
on deposit
in the bank
Sept*

In pursuance of the general plan, \$100,000 was deposited by Mr. Downey in the Commercial National Bank, of which I was then still Vice-President, ~~with the understanding that a loan of \$100,000 should be made by the bank to Downey or his corporation, and as security for such loan \$100,000 in cash was to remain as a permanent deposit in the savings account. After the \$100,000 loan had been passed to the credit of Downey, or his corporation, Downey withdrew his original deposit, left on deposit the \$100,000 loaned by the bank to him, and the bank also held the note or notes of the Downey corporation for \$100,000, which bore interest at the rate of 4%.~~

Mr. Downey and I had a discussion which developed into a controversy as to the basis upon which the \$40,000 fee

-3-

was being paid. We desired that the ostensible purpose thereof should be my services in procuring for him a loan of \$100,000, but I pointed out to him that I was an officer of the bank and ^{as} such could receive no fee for such services. I never did agree that the compensation or moneys received by me from Downey or his corporation were in any wise the result of my efforts in procuring a loan from my bank, because the real fact is that the basis for the payment of those fees or commissions represented by the \$40,000 notes was our services in procuring from the Shipping Board, through my said connections there, the contract with Downey or his corporation.

The contracts were awarded by the Shipping Board in due time to the Downey Shipbuilding Corporation, as had been stipulated by Downey, and thereupon the four notes which were in my possession as Trustee for us four became valid and negotiable, and subsequently I discounted one of said notes for \$10,000 in the Takoma Park Bank, Takoma, D.C., and another of said notes in the Title & Trust Co., Connelleville, Pa., and when the first note discounted with the Takoma Park Bank matured it was paid, and thereupon another of the \$10,000 notes was discounted in the same bank, leaving one note on my hands which was never discounted.

It had always been understood by Mr. Bolling and among us that Mr. Bolling was to receive \$8,250 from the proceeds of the discount of the notes, but for some reason he became worried and did not accept the balance of the \$8,250 still due; I had in the meantime advanced to him in different sums approximately \$1,800. These sums were paid to Mr. Bolling, as nearly as I can recollect, as follows:

-2-

agreement was entered into whereby we were to receive a commission for our services in procuring the letting of a contract by the Shipping Board to Downey, said commission being \$40,000, the same to be divided among us in the following manner: \$25,000 was to be paid in one lot and equally divided in sum of \$6,250 for each of the four of us, Sisler, Bolling, Craner and myself; the remaining \$15,000 was to go to Craner. During the negotiations Mr. Downey came to Washington and was introduced to me by Mr. Craner. He ratified the agreement whereby \$40,000 compensation was to be paid, but provided that such payments were to be made by notes bearing the date of April 15, 1917, in amounts of \$10,000 each and maturing in six months, nine months, twelve months and fifteen months respectively; but Mr. Downey insisted that the ostensible consideration for these notes should be my services in procuring a loan of money for him.

*Downey
subsequently
obtained
a loan of
\$100,000
from the
Bank
agreeing
to leave it
on deposit
in the 1st
Sept*

In pursuance of the general plan, \$100,000 was deposited by Mr. Downey in the Commercial National Bank, of which I was then still Vice-President, ~~with the understanding that a loan of \$100,000 should be made by the bank to Downey or his corporation, and as security for such loan \$100,000 in cash was to remain as a permanent deposit in the savings account. After the \$100,000 loan had been passed to the credit of Downey, or his corporation, Downey withdrew his original deposit, left on deposit the \$100,000 loaned by the bank to him, and the bank also held the note or notes of the Downey corporation for \$100,000, which bore interest at the rate of 4%.~~

Mr. Downey and I had a discussion which developed into a controversy as to the basis upon which the \$40,000 fee

-3-

was being paid. He desired that the ostensible purpose thereof should be my services in procuring for him a loan of \$100,000, but I pointed out to him that I was an officer of the bank and ^{as} such could receive no fee for such services. I never did agree that the compensation or moneys received by me from Downey or his corporation were in any wise the result of my efforts in procuring a loan from my bank, because the real fact is that the basis for the payment of those fees or commissions represented by the \$40,000 notes was our services in procuring from the Shipping Board, through my said connections there, the contract with Downey or his corporation.

The contracts were awarded by the Shipping Board in due time to the Downey Shipbuilding Corporation, as had been stipulated by Downey, and thereupon the four notes which were in my possession as Trustee for us four became valid and negotiable, and subsequently I discounted one of said notes for \$10,000 in the Takoma Park Bank, Takoma, D.C., and another of said notes in the Title & Trust Co., Connellsville, Pa., and when the first note discounted with the Takoma Park Bank matured it was paid, and thereupon another of the \$10,000 notes was discounted in the same bank, leaving one note on my hands which was never discounted.

It had always been understood by Mr. Bolling and among us that Mr. Bolling was to receive \$6,250 from the proceeds of the discount of the notes, but for some reason he became worried and did not accept the balance of the \$6,250 still due; I had in the meantime advanced to him in different sums approximately \$1,800. These sums were paid to Mr. Bolling, as nearly as I can recollect, as follows:

-4-

I paid Sisler in this and other matters a total of \$20,500, part of which, in the sum of \$14,000, was in payment of his share of a commission amounting to \$21,000 which he and I together received, on the basis of one-third to me and two-thirds to him, as broker's commission in procuring the sale of a steamship, which I now believe was in the control of the Shipping Board, to Mr. J. E. Dockendorf of New York City, for the sum of ^{about} \$700,000; the boat was to be delivered at Bordeaux, France, for foreign account, and I understand the flag was transferred. I still have a note ^{indorsed by} of Sisler for \$5,000, on which \$500. has been paid on account, but I have never made any attempt to collect the remaining \$4,500 because I considered that it was owing to him on account of the Downey commissions still unpaid.

This affidavit is freely made by me with the desire that it shall not be used for newspaper publication, but may be submitted to the Special Committee of the House of Representatives headed by Congressman Joseph Walsh, and is made at the request of Alfred W. McCann representing the New York Globe, upon his statement that it is desired in connection with a libel suit brought against the Globe by the Downey Shipbuilding Corporation.

Sworn to and subscribed before me this _____ day
of May, 1920.

Notary Public D. C.

The CHAIRMAN. Have you something more, Mr. Kelley?

Mr. KELLEY. There are one or two more questions I have just thought of.

I think you testified a while ago that some brokerage firm owed you, at the time they went out of business, some—what was that, \$20,000?

Mr. SANDS. \$20,000.

Mr. KELLEY. \$20,000?

Mr. SANDS. Yes.

Mr. KELLEY. Was that an incorporation or a partnership?

Mr. SANDS. Partnership.

Mr. KELLEY. Was Mr. Bolling a member of the partnership?

Mr. SANDS. He had been, but was out of the proposition when this debt matured.

Mr. KELLEY. And did you consider that any part of this \$20,000 was an obligation against Mr. Bolling?

Mr. SANDS. No, sir; I never did.

Mr. KELLEY. None whatever?

Mr. SANDS. I never did; no, sir.

Mr. KELLEY. Did you ever insist with Mr. Bolling that he owed you \$4,000 on that transaction?

Mr. SANDS. No, sir; I don't think I ever mentioned to him that he owed me anything.

Mr. KELLEY. What?

Mr. SANDS. I don't think I ever mentioned that he owed me anything.

Mr. KELLEY. Don't you recall the conversation in which you insisted that \$4,000 of that old account should be charged up against this?

Mr. SANDS. No, sir.

Mr. KELLEY. No such conversation ever took place?

Mr. SANDS. No, sir.

Mr. KELLEY. You haven't charged him up with this \$4,000?

Mr. SANDS. No; I have not, and I did not consider that he owed me anything after he got out.

Mr. KELLEY. He still has a credit against you of how much?

Mr. SANDS. Well, I should say he would have a credit of about \$4,000.

Mr. KELLEY. About \$4,000?

Mr. SANDS. Yes.

Mr. KELLEY. About the amount that these partners would owe you if each one paid pro rata?

Mr. SANDS. Well, that might be the fact.

Mr. KELLEY. It would be very close, wouldn't it?

Mr. SANDS. Yes; but I never considered the two together, you know; because, I will tell you, Mr. Bolling had had a rather hard life; he had a rough deal, I thought, and I had the same security after I let him out that I had before, and I released him.

Mr. KELLEY. You released him voluntarily, did you?

Mr. SANDS. Yes, sir.

Mr. KELLEY. He would have been holding, legally, under your securities?

Mr. SANDS. I can not say that he would, for this reason—

Mr. KELLEY. You say you let him out?

Mr. SANDS. I had the note of his partnership.

Mr. KELLEY. And being a partnership, he was responsible, it would be held against him?

Mr. SANDS. Yes, sir.

Mr. KELLEY. You released him from that obligation, which would be about \$4,000?

Mr. SANDS. I think so.

Mr. KELLEY. Still you insist that you did not mention that to him on the division of this \$6,250?

Mr. SANDS. Never, not that I know; no, I never did mention it.

Mr. KELLEY. And you didn't put it down in your books?

Mr. SANDS. No, sir; I never mentioned it to him, because that was some years—it was nearly two years before, and we had—everything had been settled between us before that.

Mr. KELLEY. And you felt that you had the same security against the others?

Mr. SANDS. Yes, sir.

Mr. KELLEY. And, therefore, could afford to release him entirely from the obligation under it?

Mr. SANDS. Yes, sir.

Mr. KELLEY. Referring once more to your indictment, what was the date of that again?

Mr. SANDS. September 30, 1918.

Mr. KELLEY. That is two years ago last September?

Mr. SANDS. Yes, sir.

Mr. KELLEY. The case has never been tried?

Mr. SANDS. No, sir.

Mr. KELLEY. That is all.

The CHAIRMAN. The committee will take a recess until 2.30.

Mr. SANDS. Mr. Chairman, would I be recalled?

The CHAIRMAN. You may be excused, Mr. Sands.

(Adjourned until 2.30 p. m.)

AFTER RECESS.

The CHAIRMAN. The committee will resume.

TESTIMONY OF ADOLPH AMENDE.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. What is your name?

Mr. AMENDE. Adolph Amende.

The CHAIRMAN. What is your business or occupation?

Mr. AMENDE. Reporter for the United States Shipping Board.

The CHAIRMAN. Reporter?

Mr. AMENDE. Yes, sir.

The CHAIRMAN. Stenographic reporter?

Mr. AMENDE. Yes, sir.

The CHAIRMAN. Did you take a statement made by Mr. Bolling and Admiral Benson, stenographically, recently?

Mr. AMENDE. Yes, sir.

The CHAIRMAN. You may be seated, Mr. Amende. When did you take this statement?

Mr. AMENDE. On the afternoon of November 20, 1920.

The CHAIRMAN. The afternoon of November 20?

Mr. AMENDE. Yes.

The CHAIRMAN. Have you transcribed that statement?

Mr. AMENDE. Yes.

The CHAIRMAN. Will you refer to it, please; and state whether in the statement made by Mr. Bolling you find the following language: "Some time after that Sands told me he had received a fee for procuring these bending rolls from Downey and offered to divide it with me. I think the fee was \$1,000. I told Sands that under no conditions would I accept any part of it. Sands then told me that as he had never paid me any profit on building the house, I having waived same, he would like to pay me what I thought was a fair profit for the work which I had done. I told him that \$500 I thought would be very reasonable if he wanted to pay it. Even then he did not pay all of it, giving me \$200 then and \$300 later. That is about the story, except that Sands has left out that he still owes \$900 on the original note on that house." Do you find that language in the statement?

Mr. AMENDE. Yes, sir.

The CHAIRMAN. That you have transcribed?

Mr. AMENDE. Exactly.

The CHAIRMAN. Did you hear Mr. Bolling make that statement and transcribe it as he was making it?

Mr. AMENDE. Yes, sir; very distinctly.

The CHAIRMAN. Does that paper contain statements by other officials of the Shipping Board?

Mr. AMENDE. Yes, sir.

The CHAIRMAN. By whom, please, made by whom?

Mr. AMENDE. Made by Admiral Benson, the chairman of the board and by Col. Goff, general counsel.

The CHAIRMAN. And is that the complete stenographic copy?

Mr. AMENDE. Yes, sir.

The CHAIRMAN. Can you leave that with the committee, Mr. Amende?

Mr. AMENDE. Yes, sir.

The CHAIRMAN. That is all. Any questions, Mr. Kelley?

Mr. KELLEY. No.

The CHAIRMAN. That is all, Mr. Amende.

Mr. AMENDE. May I refer to the last part; it is unimportant; it is just a few words I omitted, which bore no relation to the other part, in regard to why Mr. Bolling tore up an anonymous letter. He didn't speak distinctly and I didn't quite get that.

The CHAIRMAN. The closing paragraph on page 11 on this transcript you say there are a few words missing which you did not catch distinctly?

Mr. AMENDE. Yes.

The CHAIRMAN. In other respects it is an accurate transcript of what took place?

Mr. AMENDE. Yes, sir; and on page 9 there are a few words that a press man asked that I didn't quite catch; the second paragraph on page 9.

The CHAIRMAN. The second paragraph on page 9?

Mr. AMENDE. Yes.

The CHAIRMAN. But as far as what appears on the record, those words were spoken?

Mr. AMENDE. Yes, sir; absolutely.

The CHAIRMAN. And where there is a discrepancy it is some word that you did not catch?

Mr. AMENDE. Yes, sir.

The CHAIRMAN. On page 9 and at the bottom of page 11.

Mr. AMENDE. And that only referred to the tearing up of some anonymous letter which did not alter anything.

The CHAIRMAN. That is all, Mr. Amende; thank you. You may be excused.

We will have this statement made by Admiral Benson to the members of the press November 20, 1920, and the statements made by Admiral Benson, Col. Goff, Mr. Bolling, and questions asked by members of the press, all of which was transcribed by Mr. Amende, included in the record:

[Statement read by Admiral Benson to the members of the press Nov. 20, 1920.]

While the attitude of the chairman of the Shipping Board is to render every possible assistance to the Walsh investigation committee, and to do everything possible to aid them in carrying out the duties assigned to the committee, he feels that in view of the serious charges that have been made against a responsible official of the Shipping Board, in order to reassure the public mind at the earliest possible date, he should make a statement in regard thereto.

Not long after I became chairman of the Shipping Board and Mr. Bolling was appointed treasurer of the Shipping Board, Mr. Bolling came to me and told me the whole story of the alleged charges reported to have been made by one Tucker K. Sands, and the matter referred to in the evidence given before the Walsh committee.

His explanation was perfectly satisfactory to the chairman of the board. In addition, after the same subject had been brought to my attention by Mr. McCann, the matter was discussed with Col. Goff, our general counsel, and together we directed that a thorough and complete investigation of the various allegations and charge against Mr. Bolling be made.

This investigation was made, and the following is a report rendered by the chief of our division of investigations:

SEPTEMBER 23, 1920.

From Division of Investigation.

To Colonel G. D. Goff, general counsel.

Subject: Downey Shipbuilding Company contracts.

By direction of the chairman, also yourself, to conduct an investigation concerning the charges made that Mr. R. W. Bolling, now employed by the Shipping Board, had participated in commissions said to have been paid by the Downey Shipbuilding Company to Tucker Sands, I have the honor to report that I saw Mr. Houston Thompson, vice president of the Federal Trade Commission, and who was for some time, up to the latter part of 1919, United States Assistant Attorney General, who told me that Mr. Bolling came to him about two years ago and reported that an unsigned communication had reached Mr. Tumulty, secretary to the President, in which the writer charged that he had accepted part of \$40,000, which was paid by Downey of the Downey Shipbuilding Company to Tucker Sands.

Mr. Bolling requested Mr. Thompson to make a very thorough investigation because of the fact that he was charged with a serious crime and if he was guilty he should be punished; if innocent his innocence should be established. The letter, it seems, was either misplaced or destroyed, so that nothing was done at that time.

Shortly after, however, Mr. Bolling called again with another unsigned letter, which reiterates practically the same charges which they believed, was from some one connected with Tucker Sands and that the letter emanated in the Sands's family. Shortly after that Mr. Bolling told him that Tucker Sands had seen him in Washington and made a very urgent demand that he

(Bolling) see the President and use his influence with the President to have the activities of the Department of Justice stopped and have the prosecution against Sands dropped. Sands at this time was under indictment by a Federal grand jury charged with violations of the banking acts. On advice of Mr. Thompson, Mr. Bolling wrote a letter to Sands telling him that while he regretted exceedingly that he had become involved with the Government, he could not and would not approach the President on any such proposition.

Mr. Bolling again requested Mr. Thompson to investigate the matter. Mr. Thompson sent for Mr. Bruce Bielaski, then chief of the bureau of investigation, Department of Justice, and instructed him to make a thorough investigation of the charges against Mr. Bolling. Mr. Bolling told Mr. Thompson that prior to the war he had some transactions with Tucker Sands, whom he had known for a number of years, and with whom he had been intimately associated, but the transactions aggregated not more than \$300. Mr. Bolling gave references to these transactions, produced his check stubs and other documents which, after investigation, proved to be transactions outside of and prior to the date on which Sands charged that Downey paid over a sum of money, part of which he charged was given to Mr. Bolling.

Mr. Bielaski had expert bank accountants from the Department of Justice, go into all the records, trace out all checks, notes, drafts, etc. that could possibly have any bearing on the case, and they failed to find anything that corroborated the statements of Sands, and in the belief of Mr. Thompson it was blackmail engineered by Sands to force Mr. Bolling to intercede with the President to save Sands from further prosecution by the Department of Justice.

In view of the fact that this matter has been investigated by the Department of Justice and nothing found incriminating against Mr. Bolling, I will consider this matter closed so far as the division of investigation is concerned, unless otherwise instructed.

FRANK BURKE,
Manager, Division of Investigation.

(Following the reading of the chairman's statement, including a statement signed by Mr. Frank Burke, manager of the division of investigation.)

Col. Goff. Mr. Burke, stand up so that these gentlemen can see you. This is Mr. Burke, who perhaps is known to many of you, and he made this investigation under the direction of Admiral Benson and myself. You can answer any questions relative to this report that these gentlemen might see fit to ask you.

PRESS MEMBER. I should like to know, for curiosity, when it was that you made the report for Admiral Benson. You stated very shortly after you took office last March.

Admiral BENSON. I said shortly after I became chairman of the board Mr. Bolling was appointed treasurer, Mr. Bolling came to me and made a clean breast of the whole thing, which was perfectly satisfactory to me. It was one in that charges were reiterated that Mr. McCann and I think Mr. Fisher, but I remember that Mr. McCann stated that he had been to see the Secretary, and all that kind of thing. In discussing it again with the general counsel, we decided, in order to be absolutely sure, that we would order the division of investigation to make a thorough investigation of the case, which it did, with this result. Mr. Burke was directed by me personally, and also I remember distinctly my charge to Mr. Burke and to Col. Goff at the same time, to make a thorough investigation of every particular to be absolutely thorough and complete.

PRESS MEMBER. What I am trying to establish is the date.

Admiral BENSON. It was some time after I became chairman, as I have stated in this paper, and Mr. Bolling came to me soon after that—I don't know how soon—it might have been a month or six weeks. I don't think it was very long after he became treasurer. My recollection is that it was soon after he was appointed; and he, having been appointed to a very responsible position, felt it his duty to tell me everything regarding his past history and particularly everything that might come to me directly or indirectly that would disturb my confidence in his integrity, etc.; and after his submission of the case to me I dismissed the subject from my mind. And it was only when it was called to me again with so much insistence, as explained by Mr. McCann, that I felt it necessary, in order to satisfy the public in case the matter ever came up again in any way, that it should be thoroughly investigated again by our division of investigation; and that was the reason for my action—not that I had any doubt as to Mr. Bolling's innocence in the matter.

PRESS MEMBER. Somebody made the statement yesterday that he came to you with a specific charge of graft in the Shipping Board and that you did not agree with him.

Admiral BENSON. Who was it? I am not speaking in generalities.

PRESS MEMBER. Mr. McCann also said that he knew of this thing.

Admiral BENSON. Which thing?

PRESS MEMBER. (Hands a paper to the chairman which the chairman read to himself.)

Admiral BENSON. I don't remember that. It was a case which had already been settled, and I was so impressed with the fact that he was simply repeating idle gossip that was harmful to the character of certain people, and as I recall it now, it was a case that had been thoroughly looked into and settled by the board, that I felt very much outraged at the efforts of any one going around repeating gossip about cases which I knew to be not true, that I did become very much irritated and expressed myself very strongly to Mr. Fisher in regard to it. What particular case it was, I can not recall. Cases are brought up every day, and the only thing I can do is to handle the cases as they come to me and dismiss them from my mind.

PRESS MEMBER. I understand that Mr. Bolling is present, and I wonder if he would be kind enough to give us a statement of some kind on this.

Mr. BOLLING. Admiral, I am present here to answer any questions. I think that statement of yours covers the question fully, but anything that the people would like to ask me I would be glad to answer.

Admiral BENSON. I think Mr. Bolling would be glad to answer any questions.

Col. Goff. Why would it not be better, Mr. Bolling, for you to state to these gentlemen your story or whatever you might possibly have in mind; and if they want to ask you questions, you are free to answer, and that will give them somewhat the angle of your story?

PRESS MEMBER. If Mr. Bolling can give a short general statement.

Admiral BENSON. Yes; I think it would be a good thing for you here, in the presence of everybody, to make a statement.

PRESS MEMBER. Mr. Bolling is quoted in the Evening Star as saying that there is not a grain of truth in it.

Admiral BENSON. Really, Mr. Bolling, I think it would be a good thing to let them know everything about it.

Mr. BOLLING. At the time I made that statement, I thought the committee would be in session Monday and that I would tell the committee first and then let the newspapers have it. I am very glad to tell the story—the whole thing. It is rather a long story.

I have known Tucker Sands since about 1913. In 1916 I built him a house. When he came to pay for the house he did not have the money and he gave me a note.

PRESS MEMBER. What do you mean—that you built the house for him?

Mr. BOLLING. I was at that time in the building business. I built him a house and he gave me his note, which I put my name to on the back and discounted for \$6,000. Mr. Sands had always been my banker, and I had had various financial transactions with him. From time to time he curtailed that note. In the spring of 1918 he still owed about a little over \$3,000 on that note. At that time Mr. Sands introduced Mr. Cranor to me, asking that he get certain pieces of machinery—bending rolls they were—which the Fleet Corporation were to furnish the Downey Shipbuilding Co. in connection with the construction of vessels, and which, while promised to them, were going to be shipped to some other shipbuilding concern. He asked me to see if I could help him have these bending rolls shipped to Downey.

Sometime after that Sands told me that he had received a fee for procuring these bending rolls from Downey and offered to divide it with me. I think the fee was \$1,000. I told Sands that under no conditions would I accept any part of it. Sands then told me that as he had never paid me any profit on building the house, I having waived same, he would like to pay me what I thought was a fair profit for the work which I had done. I told him that \$500 I thought would be very reasonable if he wanted to pay it. Even then he did not pay all of it, giving me \$200 then and \$300 later. That is about the story, except that Sands has left out that he still owes \$900 on the original note on that house. Mr. Sands has never given me another cent of money except his curtailments on the note, which is now discounted in a Washington bank, and the amount due is \$900, and I have his last letter saying that he could not curtail the same.

PRESS MEMBER. What is the date of his last letter?

Mr. BOLLING. About two or three weeks ago. I get them monthly.

PRESS MEMBER. What is your idea of why he is making this charge?

Mr. BOLLING. That is pretty well covered in there. At the time Sands was in trouble he wanted me to intercede in his behalf. I liked Sands; he was a fine fellow at the time—I thought so. I told him I would do anything I could for my friends, but that if I were in his fix at the time I did not think the President would interfere with the processes of the Department of Justice, nor did I think it would be proper for me to ask him. Sands practically threatened me at that time. Since then I have had various anonymous letters, and other people have had them, saying that if the Department of Justice did not let up on Sands my name would be brought into this; and they have done it.

PRESS MEMBER. Who were the other people?

Mr. BOLLING. Secretary Tumulty is one. I think another one is Secretary McAdoo.

PRESS MEMBER. That Tumulty letter was mentioned in the investigation department—the statement which you read.

Admiral BENSON. I think it was.

PRESS MEMBER. How long ago were those received?

Mr. BOLLING. The first one was in the fall of 1918, the first received by Mr. Tumulty.

PRESS MEMBER. That one that was saying that you would be brought into it?

Mr. BOLLING. Yes, sir; the second one—I have that letter.

PRESS MEMBER. Do the letters look to be identical?

Mr. BOLLING. No; one was written on the typewriter, not signed. The other was written by hand. That is covered in the statement of the Admiral.

PRESS MEMBER. It has been stated that because of your connection with the President they centered a large part of the attack on you. It has been rumored quite freely, almost from the beginning of this committee, that because of your connection with the President they centered the attack on you.

Mr. BOLLING. Apparently they have. It would seem so. I think that the fair and just thing to do would have been to investigate and then make things public.

PRESS MEMBER. They have not given you any chance to answer this at all?

Mr. BOLLING. Absolutely not. Mr. Fisher has talked to everybody inside and outside of the board except me.

Admiral BENSON. I think, Mr. Bolling, I don't make that charge against the committee. I don't think I would make that charge against the committee—any animadversion on the committee. All the public wants is—I should object to any animadversions being made on the committee.

Mr. BOLLING. I did not mean that.

Admiral BENSON. I was quite sure you did not. I wanted to make that clear. The committee is doing the duties assigned to it by the Congress, and I object to any animadversions being made by anyone connected with the Shipping Board on the committee as a committee or individually.

Mr. BOLLING. The question was as asked if Mr. Fisher had ever come to me. He has not.

Admiral BENSON. It is quite all right to make that statement. I want to make that point clear.

PRESS MEMBER. Only two questions have been asked so far. In one, Mr. Bolling was asked if this attack was presumed to be centered on him on account of his relation with the President. He said he presumed so. He was asked—

Admiral BENSON. Of course, Mr. Bolling as a private citizen can do anything he pleases, but as chairman of the board I want it understood that I object to any official of the Shipping Board giving out anything as an official of the Shipping Board that would in any way animadvert on the committee as a whole or individually.

PRESS MEMBER. Just one more question. Mr. Bolling said that this was a \$6,000 house, and this fellow owed him—

Mr. BOLLING. No; it was about \$15,000. He paid \$9,000 and gave me a note for \$6,000.

PRESS MEMBER. And then he owed you \$3,000 in 1918, and he offered to pay you \$500 and you still say he owes you \$900? I don't see.

Mr. BOLLING. When I finished that house, he made so many changes in it. The house would run more than Sands thought it would cost before, on account of the changes they had made during the progress of construction. There was another man in business with me at the time. I had nothing to do with

him, but Sands had been kind to me in many ways, so I waived the commission as a profit, and took his note for absolutely what the house cost me. He said that he never intended to take the commission from me, allowing me to rebate it to him, but he did it because his wife was exercised because it had cost so much.

PRESS MEMBER. I don't see if he owed you \$3,000 and paid you \$500, the balance still remaining was \$900.

Mr. BOLLING. I meant that the \$500 was paid outside of that note entirely, but he kept up his payments on the note from time to time.

PRESS MEMBER. He curtailed down to \$900.

Mr. BOLLING. Yes; he has it to \$900 now. His note is in a Washington bank.

PRESS MEMBER. This man Cranor who is in—

Mr. BOLLING. I could not tell you a thing about it. Mr. Sands used to send a great many people to me. I remember once one fellow in Pittsburgh, a national bank man, wanted an airplane to exhibit on a Liberty loan. Sands sent him here to inquire. I don't care what Sands wanted, he would call on me to help him out. I don't know Mr. Cranor or his connections with the Downey Shipbuilding Company or anything about him, except that I take it he was representing the company.

PRESS MEMBER. Did you ever hear of this \$40,000?

Mr. BOLLING. No—I have of course heard of it in the last two years—yes.

PRESS MEMBER. Is the vice president of this bank lending the money on the note?

Mr. BOLLING. I always have done all my business with that bank.

PRESS MEMBER. Did you ever hear anything about Lester Sisler being mixed up in it?

Mr. BOLLING. Yes, sir; that is mentioned in the first letter, and I think it is in the one I have now.

PRESS MEMBER. These letters sent to Mr. McAdoo and Mr. Tumulty, were directed to bring you into the matter?

Mr. BOLLING. Very evidently.

PRESS MEMBER. Did they get more than one letter?

Mr. BOLLING. No; they only got one each.

PRESS MEMBER. You have never been able to trace them?

Mr. BOLLING. I never tried. I turned one over to the Department of Justice. The other one, I saw Mr. Tumulty on it. I said, "What would you do?" I tore it up and did not take it to the Department of Justice. They said that they could have traced it even if it was written on the typewriter. He was an old, gray-headed man, but they could not catch him at the time.

Admiral BENSON. Are there any other points you would like to bring out?

PRESS MEMBER. Not for me.

Admiral BENSON. I want to reiterate my position. I want it distinctly understood. We are doing all this, and it is not with any idea of in any way criticizing or animadverting on the committee. You all understand that, do you?

PRESS MEMBER. Yes.

PRESS MEMBER. Has Mr. Bolling been subpoenaed to appear in New York yet?

Admiral BENSON. Have you, Mr. Bolling?

TESTIMONY OF MR. BENJAMIN FRANKLIN FULLER.

(Witness duly sworn by chairman.)

The CHAIRMAN. What is your name, Mr. Fuller?

Mr. FULLER. Benjamin Franklin Fuller.

The CHAIRMAN. What is your occupation?

Mr. FULLER. I am a salesman of food products.

The CHAIRMAN. By whom are you employed?

Mr. FULLER. I am with Nestles Food Co. now.

The CHAIRMAN. Nestles Food Co.?

Mr. FULLER. Yes.

The CHAIRMAN. Have you at any time been employed by the Department of Justice?

Mr. FULLER. Yes, sir.

The CHAIRMAN. When?

Mr. FULLER. This summer and the fall.

The CHAIRMAN. Are you now in their employ?

Mr. FULLER. No; I am under sort of waiting orders, they call on me every once in a while to come in and straighten out something.

The CHAIRMAN. Are you an attorney?

Mr. FULLER. No, sir.

The CHAIRMAN. Are you performing legal work for them?

Mr. FULLER. No, sir.

The CHAIRMAN. What is the character of the work you are performing for them?

Mr. FULLER. Well, I was advising—have been advising with them in the procuring of subpoenas and the forming of those in respect to subpoenas duces tecum in connection with packer transactions, the Armours——

The CHAIRMAN. Oh, the packers?

Mr. FULLER. Yes, sir; the packers.

The CHAIRMAN. You have been employed by the Shipping Board?

Mr. FULLER. No, sir.

The CHAIRMAN. Have you ever been employed by any of the packers?

Mr. FULLER. Yes, sir.

The CHAIRMAN. Which one?

Mr. FULLER. I was with Armour & Co. for about 11½ years and I was with Wilson & Co. about 8 months.

The CHAIRMAN. Have you been indicted for any alleged offense?

Mr. FULLER. Yes, sir; and I think, Mr. Chairman, if you will allow me here, in fairness to the committee and myself, I would like to make a personal statement also, because last Saturday there was—Mr. Fisher made a statement here about a convict, and Mr. Meehan, apparently right from this hearing, went out and put it in the paper, that this investigation was instigated by a convict; and I am perfectly satisfied in my own mind that I am the one referred to, and I think, in justice to you and myself, that I should like to be granted the privilege of making a statement in connection with that situation.

The CHAIRMAN. What we want to know is what you were indicted for, if you were tried, and if the case was finally disposed of and who handled it?

Mr. FULLER. Why, I was indicted on the 19th day of October, 1918, and tried within the next two months on a charge of forgery and uttering. The forgery charge was wiped out by the order of the court and was not presented to the jury, and my attorney took the legal position, which I had verified to me many times since was correct, that when they had no evidence to prove me guilty of a forgery they had to prove guilty knowledge of the forged documents in order to convict me of uttering. My attorney took that position that in view of the weakness of the Government's case it was not necessary for us to put in any testimony before the court, and that was the condition which he followed. I protested strongly because I wanted to go on, but he said that that was foolish.

The CHAIRMAN. Never mind what he said and what you said.

Mr. FULLER. He didn't let me go on and I was tried and convicted. We made a motion for a new trial at once, and six months

and seven days after that motion was filed the court decided against me and sentenced me to four years in jail. That case is now on appeal.

The CHAIRMAN. Still pending?

Mr. FULLER. Yes, sir.

The CHAIRMAN. By whom was this indictment found and by whom was the case tried?

Mr. FULLER. It was found by a grand jury in the District of Columbia. We have never inspected the minutes to see——

The CHAIRMAN. Well, it was the United States court?

Mr. FULLER. Oh, yes; Federal court.

The CHAIRMAN. Who prosecuted it, the United States attorney?

Mr. FULLER. Yes, sir; James V. Archer.

The CHAIRMAN. And you, since then, have been employed by the Department of Justice?

Mr. FULLER. Yes, sir.

The CHAIRMAN. The United States attorney?

Mr. FULLER. Yes, sir; sent for me and requested me to work for them.

The CHAIRMAN. Now, have you ever been present at any conference or meeting between Mr. R. W. Bolling and Mr. Tucker K. Sands or of Mr. Lester Sisler and Mr. Tucker K. Sands or Mr. John Cranor and either or all of those gentlemen?

Mr. FULLER. Well, I have been in Mr. Sands' room any number of times when—and have met all of these gentlemen there with the exception of Mr. Sisler.

The CHAIRMAN. Never met Mr. Sisler in Mr. Sands' room?

Mr. FULLER. No; I don't recall meeting Mr. Sisler.

The CHAIRMAN. Have you ever met him anywhere else?

Mr. FULLER. Why, no; I don't think I have an acquaintance with him. I was told the other night that he was a school mate of mine back years ago, but I do not recall it, and I never had any transactions of any kind with him.

The CHAIRMAN. Well, now, did you ever hear of any conversation between Mr. R. W. Bolling and Mr. Sands relative to contracts between the Shipping Board and Providence Engineering Co. or the Downey Shipbuilding Corporation?

Mr. FULLER. I happened—my first knowledge of this situation was in the late spring or early summer of 1918, and Mr. Sands and I were very close friends and business associates, and he stated to me that I could make some money by buying some very good notes that he had. He showed me what the notes were and he said that he could use the money if he would be able to get cash for them; and I told him, "Well, that was a lot of money." He offered to sell me four \$10,000 notes for \$35,000, and I finally traded with him a little bit, until I got the price down to \$25,000, and then I was thinking seriously of trying to get them but I wanted to sleep over it, and I went home and gave it some consideration.

The CHAIRMAN. Was Mr. Bolling there?

Mr. FULLER. No, sir; I will get up to Mr. Bolling in a minute, Mr. Walsh. And I went—the next morning I used my own office to get mercantile reports on the Downey Shipbuilding Corporation, and they did not impress me favorably, and I told Mr. Sands I was

not interested. I never heard any more about them after that—I saw the notes that night—until I happened to run in to see Mr. Sands one evening when he was in his apartment—and he used it as an office, too, practically, because we all used to hang around there—and Mr. Bolling was there just getting ready to come out, and Mr. Sands handed him a check; I think the amount was either \$600 or \$800; and I said to Mr. Bolling: “Pretty soft for you!” “No,” he said, “it is pretty tough.” I said “I am sorry to hear that, because I am going to make a big ripple in a minute.” I meant by that that I was going to attempt to get considerable money from Mr. Sands that night. Mr. Bolling got up then, and he said “Good night,” and went out; and I said to Mr. Sands, “What was that?” He says, “Oh,” he says, “he got a little money on one of the Downey notes to-day, and he says ‘these fellows know about it before I do,’ and he was in here to get some of it.”

The CHAIRMAN. He didn't say that in Mr. Bolling's presence, did he?

Mr. FULLER. No, sir.

The CHAIRMAN. Did you see the check?

Mr. FULLER. I saw a check passed; yes, sir.

The CHAIRMAN. What bank was it on?

Mr. FULLER. I am not qualified to answer that.

The CHAIRMAN. Was that all that was said about that transaction at the time?

Mr. FULLER. That was all—Mr. Sands and I discussed it a little bit.

The CHAIRMAN. Did he tell you it was on account of the Downey Shipbuilding contract?

Mr. FULLER. He had told me about that before.

The CHAIRMAN. What was there about Mr. Sands' business that so many people were using his apartment in the Willard as an office or a place of assembly?

Mr. FULLER. Well, in my own case, I was one of the originators and formed the company that purchased the property and built the Hotel Washington. And I was also interested with Mr. Sands in building the Bowen Anchor Works at Morton, Pa., which had a supposed contract with the Shipping Board.

I was with Mr. Sands on several other matters. Mr. Sands apparently valued my opinion on a good many things, and would call me in; for instance, there was a restaurant company there that got in bad and had a good many creditors, and I had had some experience in restaurant business, as I conducted the Hotel Supply Co. for Armour & Co., and he called me in along with another young man who had a good bit of that experience, and we worked that proposition out, too, together. Mr. Sands was what I termed and felt and still feel, a splendid man for a young man to hook up with. He had a great deal of bank knowledge which I did not possess and I needed in working this big two and a quarter million dollar hotel proposition. I knew that we had to get the advice of a financier.

The CHAIRMAN. That was in the summer of 1918?

Mr. FULLER. Yes, sir.

The CHAIRMAN. Is that the only time you ever saw Mr. R. W. Bolling in Mr. Sands's room?

Mr. FULLER. No, no; I had seen Mr. Bolling with Mr. Sands off and on for years.

The CHAIRMAN. How many times before that had you ever seen him in Mr. Sands's room at the Willard?

Mr. FULLER. Oh, I would not like to say the number of times, Mr. Chairman, but at least a half a dozen.

The CHAIRMAN. Were you ever there when they were talking about anything?

Mr. FULLER. I never heard Mr. Sands and Mr. Bolling discuss that at any other time.

The CHAIRMAN. Did you ever hear him discuss anything at any other time?

Mr. FULLER. Why, I have heard them in discussions; yes, sir. But they were things I was not interested in, and I paid very little attention in that.

The CHAIRMAN. You were not interested in the payment of his check, were you?

Mr. FULLER. Only in so far as it—I was interested in getting some money myself, and when Mr. Bolling said it was going to be tough, why, I—

The CHAIRMAN. You were going to get money for what?

Mr. FULLER. I don't know just—I think that night I was going to get Mr. Sands to discount a note for the Anchor Co.

The CHAIRMAN. Were you interested in the Anchor Co.?

Mr. FULLER. Yes, sir.

The CHAIRMAN. In the summer of 1918?

Mr. FULLER. Yes, sir.

The CHAIRMAN. Now, did you ever hear Mr. Bolling and Mr. Sands discuss Mr. Sisler, the Secretary of the Shipping Board, or his connection with an attempt to get a contract?

Mr. FULLER. No, sir.

The CHAIRMAN. Did you ever see Mr. Downey in Mr. Sands's room?

Mr. FULLER. No, sir.

The CHAIRMAN. You know Mr. John Cranor?

Mr. FULLER. Yes, sir.

The CHAIRMAN. Did you ever see him there?

Mr. FULLER. Yes, sir.

The CHAIRMAN. Did you ever hear him and Mr. Sands discuss making of a contract with Mr. Downey?

Mr. FULLER. Yes.

The CHAIRMAN. You did?

Mr. FULLER. Yes.

The CHAIRMAN. How many times?

Mr. FULLER. Oh, I don't know, Mr. Cranor lived in the Willard, too, and he was in and out of there all the time.

The CHAIRMAN. What did you hear Mr. Cranor and Mr. Sands say about a contract with the Downey Co.?

Mr. FULLER. Well, just—just in generalities that—I am convinced that they were interested in some other projects because Mr. Cranor was—seemed to me always on Mr. Sands's back, and it was difficult for any of us other fellows that had legitimate business with him or transactions with him to get much of his time. I heard Mr.

Cranor tell him one day—I think Mr. Sands was a little bit annoyed about the note, and I heard Mr. Cranor tell him “They are as good as gold, they are all right.”

The CHAIRMAN. Did you ever hear any discussion between Mr. Sands and anybody else in his room at the Willard, or anywhere else with reference to a payment by the Downey Corporation for the Providence Engineering Corporation for procuring credit at the banks or a loan?

Mr. FULLER. No, sir.

The CHAIRMAN. Never heard that?

Mr. FULLER. No, sir.

The CHAIRMAN. Did you ever hear any discussion either between Mr. Bolling and Mr. Sands with reference to the procurement of some bending plates?

Mr. FULLER. No, sir.

The CHAIRMAN. On machinery?

Mr. FULLER. No, sir.

The CHAIRMAN. For the Downey concern?

Mr. FULLER. No, sir.

The CHAIRMAN. Do you recall any other talk that you heard Mr. Sands have with anybody else with reference to the Downey contract or the Providence Engineering contract?

Mr. FULLER. No, sir.

The CHAIRMAN. Did you ever have any other talk with Mr. Sands or with Mr. Bolling with reference to this transaction when the check was passed?

Mr. FULLER. Only as I outlined to you.

The CHAIRMAN. Now, has anybody from the Department of Justice or Treasury Department or Federal Trade Commission or Shipping Board or this committee, outside of Mr. Fisher, been to see you with reference to your knowledge concerning the alleged transactions between Mr. Sands and Mr. Bolling?

Mr. FULLER. No, nobody; the only one outside of those you named was Mr. McCann.

The CHAIRMAN. Mr. McCann?

Mr. FULLER. Yes, sir.

The CHAIRMAN. Of the New York Globe?

Mr. FULLER. New York Globe.

The CHAIRMAN. When did he first see you, Mr. Fuller?

Mr. FULLER. It was, I think, some time in April or May, I am not just certain.

The CHAIRMAN. This year?

Mr. FULLER. Yes, sir; there was a big advertisement came out in the morning paper over the signature of the Downey Shipbuilding Corporation whereby they were going to sue the Globe for \$500,000 or a \$1,000,000. I debated in my own mind what to do, and I finally thought that the decent thing to do would be to go down to the Globe and tell them I thought this was considerable bluff, and that they should not have much to worry about; that I was familiar with some transactions of Downey's, and I told that story to Mr. McCann.

The CHAIRMAN. Told what story?

Mr. FULLER. The story that has been outlined here, as far as my connection with it is concerned.

The CHAIRMAN. Told him the story of the passing the check?

Mr. FULLER. Yes, sir; and that there were four notes in existence.

The CHAIRMAN. And did Mr. McCann know anything about that before you told him?

Mr. FULLER. I want to qualify that remark by saying that I told Mr. McCann that it was not to be used for publicity purposes in the form of a newspaper story.

The CHAIRMAN. Did he know anything about it before you told him?

Mr. FULLER. He had some facts.

The CHAIRMAN. Now, what prompted you to tell Mr. McCann that?

Mr. FULLER. Well, Mr. Chairman, as I say, I debated in my own mind whether it was good policy to do so or not, and I finally made up my mind that it was right and decent that I should. This newspaper at that time was engaged in what apparently proved to be a great work; they were trying to stir up public opinion in regard to some of the terrible messes that had been allowed to go on as an outcome of the war, and to be sued that way, I thought was a little unjust, and I figured that I had been treated most unjustly myself, and if by any information I had would save some others from going through what they had attempted to put me through, I was perfectly willing to do it.

The CHAIRMAN. Well, now, this liability suit against the Globe, did it involve their printing this very story, or was it something else?

Mr. FULLER. Oh, no; they printed a story relative to the prepayment of, I think, \$2,500,000.

The CHAIRMAN. To the Downey Co.?

Mr. FULLER. Yes, to the Downey Co. by the Shipping Board.

The CHAIRMAN. Did you have any knowledge as to that?

Mr. FULLER. Well, I have heard Mr. Cranor and Mr. Sands discussing that situation, not with respect to the amounts, but I heard them talking in a general way relative to the finances of the Downey Co.

The CHAIRMAN. Was the motive which prompted you to inform Mr. McCann about this transaction not to see this newspaper treated unjustly?

Mr. FULLER. That is right, sir.

The CHAIRMAN. No other reason?

Mr. FULLER. None whatever.

The CHAIRMAN. Have you ever had any difficulty with the Downey Shipbuilding Corporation?

Mr. FULLER. None whatever.

The CHAIRMAN. Did you make any further investigation or inquire yourself as to the passing of this check from Sands to Bolling?

Mr. FULLER. No, sir.

The CHAIRMAN. Or into the existence or payment of the notes?

Mr. FULLER. No, sir. Mr. Sands told me that the matter had been closed up, and he had accepted \$25,000 and called it square.

The CHAIRMAN. When did he tell you that?

Mr. FULLER. Oh, that was—well, I do not know; that was some time probably in the late fall of 1918, or maybe—I do not know,

maybe 1919; I am not just certain as to that, but Mr. Sands told me that.

The CHAIRMAN. Do you know from anything Mr. Sands told you or from anything you have heard either him or Mr. Bolling say, what Mr. Sands did toward procuring a contract for the Downey Co. with the Shipping Board?

Mr. FULLER. No, sir; I never heard that discussed.

The CHAIRMAN. Did you ask Mr. Sands, when he told you of your opportunity to make some money on these notes, how he happened to have them?

Mr. FULLER. Yes, sir.

The CHAIRMAN. What did he say?

Mr. FULLER. Well, he told me that he had done some work for Downey and he had been paid in notes, which was a great surprise to him, as he expected the cash, and he told me it was to be cut up four ways between himself, Cranor, and Bolling, and Sisler.

The CHAIRMAN. He told you that?

Mr. FULLER. Yes, sir.

The CHAIRMAN. What work did he tell you that he had done?

Mr. FULLER. Well, I did not discuss that with him.

The CHAIRMAN. Do you know whether it was with relation to procuring a contract or procuring credit, or a loan?

Mr. FULLER. I do not know; I would not want to say that.

The CHAIRMAN. He just said he had done some work for Downey?

Mr. FULLER. That he had just done some work for Downey, and this was the fee.

The CHAIRMAN. Have you ever met Mr. Downey?

Mr. FULLER. No, sir.

The CHAIRMAN. I think you never saw him there at Mr. Sands' office?

Mr. FULLER. I never did, to the best of my recollection.

Mr. KELLEY. What time of day was it when this check was passed?

Mr. FULLER. Why, it was probably 8.30 or 9 o'clock.

Mr. KELLEY. In the morning?

Mr. FULLER. In the evening.

Mr. KELLEY. At the Willard Hotel?

Mr. FULLER. Yes, sir.

Mr. KELLEY. What was the number of the room?

Mr. FULLER. I could not tell you that; it went in off the F Street entrance, and walked up a little flight, and there was an alcove, and a couple of rooms, and Mr. Sands had a couple of rooms; Mr. Sands had that.

Mr. KELLEY. How do you know whether it was for \$400 or \$600 or \$800?

Mr. FULLER. I remember there was an amount stated there, and I told them it was chicken feed; that I was going to make a big raffle.

Mr. KELLEY. And not for—

Mr. FULLER (interposing). Six or eight—the expression was either six or eight hundred dollars; the amount was stated there.

Mr. KELLEY. Stated where?

Mr. FULLER. Right in the room; Mr. Sands either said it or Mr. Bolling said it.

Mr. KELLEY. You did not see it written in the check?

Mr. FULLER. No, sir; I did not.

Mr. KELLEY. What did he mean by "it was just chicken feed"?

Mr. FULLER. He did not mean it at all—I said that, Mr. Kelley. I think I had a note for either \$5,000 or \$10,000 that I wanted to have discounted next day, and I spoke of it as "chicken feed" just in a jocular manner.

Mr. KELLEY. You were dealing with Mr. Sands as a banker?

Mr. FULLER. Yes, sir; but I used to go over and take those matters up with him the night before, because his committee would have to sit and pass on the things, of those amounts, and he was always so busy—they were in very cramped quarters, and Mr. Sands was the active officer; it was difficult to get to him in the daytime.

Mr. KELLEY. There was not anything said by Mr. Bolling, or by Mr. Sands in Mr. Bolling's presence, to indicate what this money was for?

Mr. FULLER. This check?

Mr. KELLEY. Yes.

Mr. FULLER. No, sir; not in his presence.

Mr. KELLEY. And Mr. Bolling never indicated to you?

Mr. FULLER. No, sir; we did not discuss that at all.

Mr. KELLEY. What it was for?

Mr. FULLER. No, sir.

Mr. KELLEY. Are you well acquainted with Mr. Bolling?

Mr. FULLER. I know him fairly well, sir.

Mr. KELLEY. Did you ever have any business transactions with him?

Mr. FULLER. Yes, sir.

Mr. KELLEY. Before this time or since?

Mr. FULLER. Yes, sir; I had some.

Mr. KELLEY. I say, before this time or since?

Mr. FULLER. Before.

Mr. KELLEY. Before this time?

Mr. FULLER. Yes, sir.

Mr. KELLEY. Since, too?

Mr. FULLER. I do not think I have had anything to do with him since; in fact, I came away from Washington in March of 1919.

Mr. KELLEY. Would you not think it was rather strange that an experienced banker would tell another customer that he had bribed a Government official?

Mr. FULLER. He did not tell me that he had "bribed a Government official."

Mr. KELLEY. Was not that what you understood from the conversation, that he was getting his part of this fee?

Mr. FULLER. I tell you, Mr. Kelley, there was so much of that kind of stuff going on in Washington of which I was well aware myself, that I paid little attention to it.

Mr. KELLEY. You mean that you knew of other cases where Government officials have been bribed?

Mr. FULLER. Yes, sir.

Mr. KELLEY. Have you got documentary proof of it?

Mr. FULLER. Well, sir, I can give you some.

Mr. KELLEY. You did not think it was anything especially strange, in view of everything that you knew, that a banker would admit that he was guilty of bribery?

Mr. FULLER. Well, Mr. Kelley, at the time I never gave it that consideration.

Mr. KELLEY. How is it as you think back now?

Mr. FULLER. Well, just let me qualify that in this way: I knew this, that the four people connected—because the notes had been offered to me, and I had pretty good knowledge of their financial standing, and if notes of that amount were to be used they had to be handled by Mr. Sands or somebody with a like amount of credit. I knew the other men could not swing any such thing as that.

Mr. KELLEY. How did you know the other men were connected with the notes at all?

Mr. FULLER. Only in so far as it was told to me.

Mr. KELLEY. By whom?

Mr. FULLER. By Sands, and then, as I said, I heard Mr. Cranor talk——

Mr. KELLEY (interposing). When was it that he offered these notes to you?

Mr. FULLER. My best recollection is that it was in the latter part of May.

Mr. KELLEY. Were the notes due?

Mr. FULLER. Oh, no, sir; no, sir; but he made the—what I thought was a good trade.

Mr. KELLEY. How did he happen to offer the notes to you when you were in there borrowing money the most of the time?

Mr. FULLER. I had some paper that could be used a little better than that. I had, if I may be permitted to go on and tell you how I became in possession of that paper——

Mr. KELLEY (interposing). No, I do not care particularly about that. But you had other paper?

Mr. FULLER. Yes, sir.

Mr. KELLEY. Which you could dispose of, and then with the proceeds of that buy these?

Mr. FULLER. That was it; I could have really swapped \$25,000 worth of the paper that I had for this \$40,000.

Mr. KELLEY. He offered to take \$25,000 for the four notes, did he?

Mr. FULLER. When we wound up, yes, sir; cash. Of course, it was equivalent to cash, because the notes I had could have been discounted at once.

Mr. KELLEY. And your notes were worth full face value?

Mr. FULLER. Yes, sir.

Mr. KELLEY. Oh, yes; he offered to take \$25,000 in cash?

Mr. FULLER. That is it. But he would conduct the negotiations with the notes; he would get the \$25,000 on my notes.

Mr. KELLEY. Were you in Mr. Sands's room much in February, 1918?

Mr. FULLER. February—yes, sir; yes, sir.

Mr. KELLEY. And was Mr. Bolling there in February, 1918?

Mr. FULLER. I could not answer as to that. My impression was that all of us were around there, and when I say "all of us" I include Mr. Bolling.

Mr. KELLEY. Evenings that was, during the evening?

Mr. FULLER. Yes, sir. Well, yes, it was in the evenings, because Mr. Sands does not leave the bank until 5 o'clock.

Mr. KELLEY. Were they talking about this contract with the Downeys during those evenings that you were in there?

Mr. FULLER. I could not answer that, Mr. Kelley. I never heard Mr. Bolling and Mr. Sands talk about the contract; I have heard Mr. Cranor and Mr. Sands talk of the contract.

Mr. KELLEY. But you never heard Mr. Bolling say anything about the contract at all?

Mr. FULLER. No, sir.

Mr. KELLEY. And at such times at the room in the hotel occupied by Mr. Sands there was no conversation in the presence of Mr. Bolling about this contract?

Mr. FULLER. No, sir; not that I was ever present at.

Mr. KELLEY. Were you present at any time when Mr. Sands and Mr. Cranor were discussing the finances of the Downey people?

Mr. FULLER. Yes, sir.

Mr. KELLEY. And what was the general gist of the conversation?

Mr. FULLER. Well, it was—they were about ready to finish it when I got in there, and I just heard them say—I heard Cranor say that the notes were good, "good as gold," and "Downey was all right," and "no question for an argument about that paper."

Mr. KELLEY. That was in May some time?

Mr. FULLER. Yes, sir.

Mr. KELLEY. But back in February, did you hear anything, any discussion, about the Downey companies at all then?

Mr. FULLER. No, sir; I did not.

Mr. KELLEY. I thought you said in answer to a question of Mr. Walsh that you did hear a good deal of conversation about the Downey company?

Mr. FULLER. But I did not say in February.

Mr. KELLEY. It was after——

Mr. FULLER (interposing). Well, I would not want to place the date. It was in the early part of that year and these things are not indelibly impressed on my mind as to the dates that way; I afterwards got into it myself.

Mr. KELLEY. Your impression is that Mr. Sands was a little bit skeptical about these notes as to their value?

Mr. FULLER. I think Mr. Sands had gotten a little timid as to them being worth \$40,000, but I do not mean by that that he tried to euchre me or put anything over on me; it was a straight, clean business transaction, and if I was stupid enough to buy them, it was my hard luck.

Mr. KELLEY. He had told you all about how they were obtained and it was your lookout?

Mr. FULLER. Yes.

Mr. KELLEY. But you did not think they were worth then the \$25,000?

Mr. FULLER. I have to admit I did not.

Mr. KELLEY. Why not?

Mr. FULLER. The information that I go through our credit department, from the mercantile agencies, would lead me to believe that

everything hinged on Downey getting his money very promptly from the Emergency Fleet Corporation, and I did not want to have any ifs, ands, and buts, in any notes I was buying.

Mr. KELLEY. You do not know from any investigation you have ever made whether or not any part of this money which the Downey people used in taking up these notes was advanced to them by the Shipping Board for ship construction?

Mr. FULLER. I do not know myself. I have heard from very reliable authority that there was \$40,000 which could not be accounted for when the auditors went in there.

Mr. KELLEY. Who told you that?

Mr. FULLER. Well, I—I heard a Mr.—I can not recall the name, but it was over in Mr. McCann's office, and I heard a gentleman tell Mr. McCann that Mr. John Overend, I think he said, who is the Comptroller of the Emergency Fleet Corporation in Baltimore, opened up the Downey books, and that when he had finished his audit he said, "There is \$40,000 here difference between what you got and what you account for."

Mr. KELLEY. That is hearsay, so far as you are concerned?

Mr. FULLER. Absolutely; yes, sir; and he said—it don't make any difference what he said—

Mr. KELLEY (interposing). Did you hear them in February or March discuss the difficulties of getting a contract from the Emergency Fleet Corporation for the Downey Co.?

Mr. FULLER. Well, sir—

Mr. KELLEY (interposing). You did not hear Mr. Cranor say how difficult it was, or anything of that kind?

Mr. FULLER. Mr. Cranor said to me two or three times—I asked him how he was getting along, and he said, "Pretty tough going, but we will go over."

Mr. KELLEY. But he did not say he was having trouble establishing his credit with the credit department or anything of that kind?

Mr. FULLER. No, sir; I was not interested in the transaction; I was just a close friend of Sands and just happened to stumble over it.

Mr. KELLEY. How many times have you been called in by the Department of Justice for other work since you had your own difficulty?

Mr. FULLER. I was never called in before, Mr. Kelley, until the 17th day of June of this year, and a Mr. Armand W. Riley, special assistant to the Attorney General, sent for me and asked me if I would do some work for them, and I said yes, and went to work on the 19th of July, and was employed continuously until the 20th of September, and then I have been intermittently since.

Mr. KELLEY. And when was your conviction?

Mr. FULLER. Well, that was very rapid—on the 23d day of December, 1918—1919.

Mr. KELLEY. And these other dates that you have mentioned are 1920?

Mr. FULLER. Of the Department of Justice; yes, sir. Yes, sir; I was indicted on the 19th of October, and I think I went to trial on the 15th of December, and there was considerable difficulty in getting a jury, and we finally—my attorney told the district attorney that

he wanted to know why the haste—what it was all about—I was an arch criminal and had to go.

Mr. KELLEY. You are out on bail, under appeal?

Mr. FULLER. Yes, sir.

Mr. KELLEY. And the Department of Justice in the meantime is utilizing your services?

Mr. FULLER. That is right; yes, sir. And, incidentally, I will say in connection with my work, that one concern or its officers have been indicted under 137 counts by a Federal grand jury——

Mr. KELLEY (interposing). Perhaps that has nothing to do with this particular transaction?

Mr. FULLER. No, sir.

Mr. KELLEY. Just strike that out. You have got the idea that this check was for \$600 or \$800?

Mr. FULLER. Yes, sir.

Mr. KELLEY. From conversations between Sands and Bolling?

Mr. FULLER. Yes, sir.

Mr. KELLEY. You are sure it was not \$500?

Mr. FULLER. Well, I am practically certain it was not.

Mr. KELLEY. Well, how certain would that be?

Mr. FULLER. I am just as certain as I could be of anything in the world that the figures were either \$600 or \$800, and I believe I heard you ask Mr. Sands to bring his checks, and they will disclose what it was.

Mr. KELLEY. Do you know it was not February?

Mr. FULLER. I know it was not February; I know there was not any conversation about \$500.

Mr. KELLEY. The conversation about \$600 or \$800——

Mr. FULLER (interposing). \$600 or \$800 check.

The CHAIRMAN. Mr. Fuller, would you look at the record and see if that is the record of your indictment and trial and appeal? [Handing paper to witness.]

Mr. FULLER. I think that is, Mr. Chairman.

The CHAIRMAN. We will have that inserted in the record.

(The record referred to is here printed in full as follows:)

SUPREME COURT OF THE DISTRICT OF COLUMBIA—UNITED STATES, PLAINTIFF,

v.

BENJAMIN FULLER, DEFENDANT.

[No. 35637. Criminal.]

I, Morgan H. Beach, clerk of the Supreme Court of the District of Columbia, do hereby certify the annexed to be a true copy of the original entries of proceedings in the above-entitled cause as the same appear upon the criminal docket of said supreme court.

In testimony whereof, I hereunto subscribe my name and affix the seal of said court, at the city of Washington, this 24th day of November, A. D. 1920.

[SEAL.]

MORGAN H. BEACH, *Clerk.*

By AIF. G. BUHRMAN,

Assistant Clerk.

SUPREME COURT OF THE DISTRICT OF COLUMBIA—CRIMINAL COURT.

No. 35637. Parties, United States v. Benjamin F. Fuller, alias B. Frank Fuller. Charge, Forgery and uttering. Attorneys, for prosecution ———; for defendant, H. E. Davis.

Date.	Proceedings.	United States's witnesses.	Defendant's witnesses.
1919.			
Oct. 3	Presentment and indictment filed	Thomas P. Hickman..	David Carasho.
Nov. 15	Arraigned; plea "not guilty"	Paul F. Cain.....	Ada C. Fuller.
15	Ball fixed at \$3,000.....	Phillip D. Armour....	
15	Recognizance, \$3,000; George W. Ray, surety.....	William E. Day.....	
Dec. 9	Motion to postpone hearing filed.....	Harvey Given.....	
9	Motion granted and trial set for Dec. 17, 1919.....	Thomas G. Lee.....	
17	Impaneling of jury begun; panel exhausted; 50 names ordered drawn.....		
18	Jury sworn; respited		
19	Court directs a verdict of "not guilty" on the first count; again respited.....		
Dec. 22	Verdict, guilty on second count.....		
24	Motion in arrest of judgment.....		
24	Motion for new trial filed.....		
24	Defendant's prayers.....		
1920.			
Jan. 3	Time to submit motion for new trial and in arrest of judgment continued to Jan. 10, 1920.....		
10	Time to submit motion for new trial continued to Jan. 17, 1920.....		
17	Time to submit motion for new trial and in arrest of judgment continued to Jan. 24, 1920.....		
17	Memorandum of defendant's attorney on same.....		
June 30	Motion for new trial and motion in arrest of judgment overruled; exceptions.....		
30	Sentence to penitentiary for period of 4 years, to take effect from and including the date of arrival. Appeal. Bond, \$100. Recognizance, \$3,000; Geo. W. Ray, surety.....		
July 13	Bond for costs approved; filed.....		
Aug. 10	Time to submit bill of exceptions extended to and including Sept. 11, 1920.....		
Sept. 10	Bill of exceptions submitted.....		

Have you any personal knowledge, Mr. Fuller, of stewards or other officers of the Shipping Board's ships receiving or accepting commissions, gifts, gratuities, or bonuses on account of purchases made for supplies, material, or repairs?

Mr. FULLER. Yes, sir.

The CHAIRMAN. Where did these things occur?

Mr. FULLER. Here in New York.

The CHAIRMAN. Do you recall the names of the ships?

Mr. FULLER. Well, I have a list of some vessels, and I believe I gave them to Mr. Fisher. I am not certain whether he has them or not, but if they are not, they are in my files, and I will be able to locate them. The reason for that, Mr. Chairman—I sublet my apartment, and just got into it day before Thanksgiving again, and I am upset.

The CHAIRMAN. Do you know whether—I wish you would answer this yes or no, Mr. Fuller, if you can—or not it is or has been a custom or practice for stewards, engineers, or other officers of ships to accept gifts, bonuses, commissions, or presents from parties furnishing supplies or material or doing repairs to the ships?

Mr. FULLER. Yes.

The CHAIRMAN. And whether or not that practice prevailed with reference to the Shipping Board ships in this particular locality?

Mr. FULLER. Yes.

Mr. KELLEY. You mean he does or that it does prevail?

The CHAIRMAN. You know it has prevailed?

Mr. FULLER. I know it does—I know that it did up to the time I got out of it.

The CHAIRMAN. As I understood you, the assistance you have been rendering the Department of Justice has been in connection with the so-called packers' cases?

Mr. FULLER. That is right, sir.

The CHAIRMAN. In which some indictments have been found?

Mr. FULLER. Yes, sir.

The CHAIRMAN. And the information and assistance you have rendered has been concerning the packers, by whom you were previously employed?

Mr. FULLER. Not wholly.

The CHAIRMAN. Some?

Mr. FULLER. Yes, sir; the others were included.

The CHAIRMAN. Do you know Mr. T. Edward New?

Mr. FULLER. No, sir; not to my knowledge.

The CHAIRMAN. Do you know the credit manager of the Emergency Fleet Corporation?

Mr. FULLER. No, sir.

The CHAIRMAN. Did you ever have any transactions with him?

Mr. FULLER. Not to my best knowledge and belief.

The CHAIRMAN. You said, in response to a question by Mr. Kelley, that "we looked up the mercantile records of the Downey concern." Who did you mean by "we"?

Mr. FULLER. I was the president and manager of the Columbia Hotel Supply Co., and I instructed my cashier to get me a report on the Downey Shipbuilding Corporation, and he got that report and put it in my office and laid it on my desk.

The CHAIRMAN. You were connected with the Columbia Hotel Supply Co.?

Mr. FULLER. Yes, sir.

The CHAIRMAN. That is a Washington concern, is it?

Mr. FULLER. Yes, sir.

The CHAIRMAN. And when you were offered these notes you looked into the financial standing of the Downey concerns?

Mr. FULLER. That is right.

The CHAIRMAN. Did that include a statement as to the Providence Engineering Co.?

Mr. FULLER. My best recollection of that is very vague, Mr. Chairman. I do not recall just what the statement showed then. I know that it did not show enough to warrant me buying the notes.

The CHAIRMAN. Did the statement show that they had a large contract for 10 or more steel cargo ships which had been awarded them in April, 1917, or early in 1917?

Mr. FULLER. My best recollection is that it did.

The CHAIRMAN. And did it show, also, that they had got this contract for 10 steel ocean-going tugs?

Mr. FULLER. My best recollection is that it did not show—I do not think it did; I think the report stated that it was a report of March 1, 1918.

The CHAIRMAN. Oh, yes; that is before the tugboat contract was awarded.

Mr. FULLER. I do not know which one, but there was one contract that they had.

The CHAIRMAN. But this was in May that you had looked them up?

Mr. FULLER. Yes, sir.

The CHAIRMAN. And your investigator only brought it down to March 1, 1918?

Mr. FULLER. It was a regular mercantile report. I am not certain which agency we got it from.

The CHAIRMAN. There is March, there is April, there is May—there is 60 days. These mercantile reports are brought down nearer to date, are they not, Mr. Fuller?

Mr. FULLER. When you ask for a special report; yes, sir.

The CHAIRMAN. Were you not interested enough to get a special report?

Mr. FULLER. Well, no, sir. After I had read over this situation and found it was to be bound up in a dependent Government work I got cold feet.

The CHAIRMAN. Mr. Sands was a pretty busy man during these times in Washington, was he?

Mr. FULLER. It seemed so.

The CHAIRMAN. Connected with lots of various enterprises and transactions, apparently?

Mr. FULLER. Yes, sir; he was, as I say, the active officer of what was then the largest bank there.

The CHAIRMAN. The Commercial National Bank?

Mr. FULLER. Yes, sir.

The CHAIRMAN. And during the evenings he met parties and had transactions at his rooms or apartment at the Willard Hotel?

Mr. FULLER. Yes, sir.

The CHAIRMAN. Did you ever talk with Mr. Bolling about this check transaction?

Mr. FULLER. No, sir; only just as I outlined it to you before.

The CHAIRMAN. Well, that was at the time—but since then?

Mr. FULLER. Oh, no.

The CHAIRMAN. Did you ever tell him or anybody else that you had told Mr. McCann about it?

Mr. FULLER. I do not recall telling anyone but Mr. Fisher—I believe I did tell Mr. Riley, who was Assistant Attorney General.

The CHAIRMAN. The man who engaged you to assist in the packer cases?

Mr. FULLER. Yes, sir.

The CHAIRMAN. Did it occur to you that what you had seen with reference to this check transaction, not having heard any of the conversation that preceded the delivery of the check, that you knew sufficiently about it to make a statement which practically resulted in a charge against one of the officers of the Shipping Board of having received a bribe?

Mr. FULLER. I think, Mr. Chairman, you are probably misinformed on that. Mr. Fisher stated here that he had heard of that situation months before McCann——

The CHAIRMAN. No; I am talking with reference to your conversation with Mr. McCann.

Mr. FULLER. Well, that had been noised around, as Mr. Fisher knew of it months before Mr. McCann.

The CHAIRMAN. Yes.

Mr. FULLER. Mr. McCann apparently did not know of it, because he was very grateful for the information.

The CHAIRMAN. I see. Well, had you talked with Mr. Fisher before you talked with Mr. McCann?

Mr. FULLER. No, sir; I never saw Mr. Fisher until July.

The CHAIRMAN. You said it was noised around before that.

Mr. FULLER. Well, that is what——

The CHAIRMAN. Had you heard it before?

Mr. FULLER. Oh, yes.

The CHAIRMAN. From whom?

Mr. FULLER. From Mr. Sands.

The CHAIRMAN. Well, from anybody else?

Mr. FULLER. Why, no.

The CHAIRMAN. How do you know it was rumored around or noised around?

Mr. FULLER. Well, I only know that Mr. Fisher made that statement here, and I was trying to correct it. The impression seemed to have gotten out that I stirred this thing up, and it is not the truth.

The CHAIRMAN. How do you know it is not the truth?

Mr. FULLER. Well, if Mr. Fisher is telling the truth, then one of us is not; that is all. I accept my portion——

The CHAIRMAN. You say you only know that this story was noised around before you told Mr. McCann from Mr. Fisher?

Mr. FULLER. Yes, sir.

The CHAIRMAN. Did you hear it from anybody else?

Mr. FULLER. No, sir.

The CHAIRMAN. Well, then, aside from what you heard Mr. Fisher testify, how do you know that the story was going the rounds before you told it to Mr. McCann?

Mr. FULLER. I had no knowledge of it.

The CHAIRMAN. I see. So you are relying upon what Mr. Fisher said when he had his interview with Admiral Benson?

Mr. FULLER. Yes, sir; but Mr. Fisher told me the first day that he met me——

The CHAIRMAN. Yes; I say you are relying upon what Mr. Fisher said?

Mr. FULLER. Yes, sir.

The CHAIRMAN. Did you have yourself, or any concern with which you were connected, any contract with the Emergency Fleet Corporation for shipbuilding or equipment?

Mr. FULLER. I was the president of the Bowen Anchor Co., which was later reorganized and named the Morton Steel Casting Co., and we had a tentative contract for anchors. We were instructed to go ahead and build a plant and start in to manufacture anchors, first making some and having them handed over to Lloyds and the American Bureau of Shipping for tests.

The CHAIRMAN. Well, you did have a contract?

Mr. FULLER. Yes, sir. Well, it was tentative, though, Mr. Chairman, subject to this test. That was the joker.

The CHAIRMAN. Well, was it a signed contract?

Mr. FULLER. Oh, yes, sir.

The CHAIRMAN. You had a signed contract, but it was conditional upon some terms or requirements?

Mr. FULLER. That is it; yes, sir.

The CHAIRMAN. And was that contract fulfilled?

Mr. FULLER. No, sir. We were instructed to make sample anchors, and we did, and submitted them to Lloyds and the American Bureau of Shipping; and my best recollection of this is that Lloyds gave us a clean bill of health and passed our anchor. The American Bureau of Shipping passed it and then withdrew their official——

The CHAIRMAN. Approval?

Mr. FULLER. Approval; yes, sir.

The CHAIRMAN. When did this happen?

Mr. FULLER. Well, this was around in 1918, in the summer, the spring and summer, some place along in there. There are records as to that, Mr. Walsh.

The CHAIRMAN. Was Mr. Sands connected with that concern, too?

Mr. FULLER. Yes, sir; Mr. Sands was in that with me.

The CHAIRMAN. Was he treasurer of the concern?

Mr. FULLER. I do not think so.

The CHAIRMAN. Or just a stockholder?

Mr. FULLER. No, sir; he was just one of the directors.

The CHAIRMAN. One of the directors. Do you know why the approval was withdrawn? Have you any facts or information on that?

Mr. FULLER. Well, there were very peculiar circumstances to that. I, in company——

The CHAIRMAN. Well, do you know, Mr. Fuller?

Mr. FULLER. Well, yes, sir; but I would have to qualify it.

The CHAIRMAN. What was the reason?

Mr. FULLER. Well, a fellow approached me and wanted me to come across.

The CHAIRMAN. A fellow?

Mr. FULLER. Yes; a man who represented himself as an agent of Mr. Sharp, of the American Bureau of Shipping.

The CHAIRMAN. Well, did you; did you come across?

Mr. FULLER. No, sir.

The CHAIRMAN. And you never furnished the anchors?

Mr. FULLER. No, sir.

The CHAIRMAN. Have you any questions, Mr. Kelley?

Mr. KELLEY. How long have you known Mr. Sands?

Mr. FULLER. Why, since 1912 or 1913, I think. Maybe it does not go back quite that far, but that is my best recollection.

Mr. KELLEY. Do you consider him a very reliable and trustworthy man?

Mr. FULLER. Why, yes, sir, Mr. Sands; certainly. He was always on the level with me.

Mr. KELLEY. Do you think you would testify that he is just the kind of man that a young man ought to get connected with?

Mr. FULLER. I felt that way; yes, sir.

Mr. KELLEY. Do you still feel that way?

Mr. FULLER. Well, I don't think—of course, a situation has arisen which might put a different feeling in one's mind; but as far as Mr. Sands is concerned, I trust him implicitly, and think he is a very high type of gentleman.

Mr. KELLEY. Do you think a man who would pay an employee of the Shipping Board, two employees of the Shipping Board, to assist in obtaining a contract, would be a high-class gentleman?

Mr. FULLER. That was wrong, dead wrong, and a very gross error; but I have not gotten to a place in my life where I want to throw off a friendship because a man made a mistake.

Mr. KELLEY. You do not approve of that transaction?

Mr. FULLER. No, sir.

Mr. KELLEY. Well, the only evidence you have that Mr. Bolling was in any way connected with it is what Mr. Sands told at the time you talked about purchasing these notes, and at the time one of them was cashed?

Mr. FULLER. That is right, sir.

Mr. KELLEY. And that was what Mr. Sands said in each case?

Mr. FULLER. Yes, sir.

The CHAIRMAN. That is all, Mr. Fuller.

Mr. Meehan.

TESTIMONY OF MR. JOHN T. MEEHAN—Recalled.

The CHAIRMAN. Mr. Meehan, did you have occasion to make an investigation of the alleged transaction between the Downey Shipbuilding Corporation, Mr. Sands, and Mr. Cranor involving Mr. Bolling and Mr. Sisler?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. When did you first start that inquiry?

Mr. MEEHAN. I first heard statements reflecting upon Mr. Bolling from Mr. Fisher at the time that I was stationed at Philadelphia. At that time we had no—

The CHAIRMAN. Well, now, when was it; when, I say?

Mr. MEEHAN. I should say perhaps in January, 1920, or prior to that time. At that time, Mr. Chairman, our department had no supervision, as I explained the other day, over matters affecting the Shipping Board and the Division of Operations, and it was not until after I went to Washington about the 15th of February, I believe, that we took up those matters.

The CHAIRMAN. In February did you undertake an investigation?

Mr. MEEHAN. I did. In February, after I went to Washington, I had been some weeks, when I went to see Mr. Tweedale, at that time Treasurer of the United States Shipping Board, and told him that I had heard some things reflecting upon Mr. Bolling. Up to that time we had not the details, as they were later brought out in this conference between McCann, Schwarzkopf, and Sands, but more or less rumors that Bolling had gotten some money somewhere or other through Tucker K. Sands. That was about the extent of our information. Mr. Tweedale told me that he had talked the matter over with Fisher, that he had investigated it thoroughly, and that as a

matter of fact Bolling had come to him and told him about these stories, and that he was satisfied that there was no basis to them.

Downey's name was not connected with it at first—just that Bolling had gotten some money through Tucker K. Sands. I had an impression that perhaps it had something to do with the matters that were under investigation at the time of the so-called "leak" inquiry; and Bolling's partner, Robertson, after they had dissolved that brokerage copartnership, had gone into the shipbuilding business and was president of the White Haven Shipbuilding Co. in Maryland. There was a man associated with him by the name of Beckerly, who formerly was with the American Bridge Co. at Kansas City, and during a great part of the war was district supervisor of the Emergency Fleet Corporation in Baltimore in charge of wood-ship construction in that district. I had had occasion to investigate Beckerly, and Beckerly had come to me several times after he got out of the Shipping Board—he was discharged rather peremptorily—to inquire what I had on him; and after I was in Washington, knowing that Beckerly had gone with Robertson, I thought if Bolling had gotten any money in any way that probably Robertson, who was a partner of his in the brokerage business, would know about it, and inasmuch as Beckerly was anxious to know what I had on him, why, I decided it would be a good thing to play Beckerly.

So I arranged to meet Beckerly and talked with him on several occasions, and eventually went into the question confidentially and asked him if I could talk to him confidentially, and he gave me his word of honor that he would never mention it. And then I told him that reports had reached me that Wilmer Bolling had gotten some money from Tucker K. Sands in some way or other, and that Tucker Sands had handled some notes in which Bolling and other people were interested.

He told me then about his relation with Robertson and the brokerage concern, and agreed to go over to his place of business in Maryland and look over the papers and come back and give me the full inside story of it. He came back, and I had another conference with him, and he assured me that Bolling got nothing out of it.

The CHAIRMAN. Out of what?

Mr. MEEHAN. Out of any of those notes; and he explained to me—at that time, of course, we had not heard this later story, and I thought it all grew out of the old brokerage transaction—he explained to me that Sands was——

The CHAIRMAN. Beckerly was doing this explaining now?

Mr. MEEHAN. Beckerly was; and Beckerly told me that Sands had been a dummy for Bolling and Robertson and the other partner in the brokerage deal in order to not let it become known just what they were doing; and, as I understood it, they bought a membership in the Stock Exchange or the Consolidated Exchange or something——

The CHAIRMAN. That has got nothing to do with these notes or the Downey transaction.

Mr. MEEHAN. Anyhow, from that transaction I believe Beckerly told me the truth; I was satisfied Bolling had nothing to do with it. And later I heard the story again.

The CHAIRMAN. Mr. Meehan, was that partnership in existence at that time—this brokerage partnership?

Mr. MEEHAN. Well, it has not been settled; but Bolling was out of it, I was informed by Beckerly.

The CHAIRMAN. All right.

Mr. MEEHAN. Later the matter came up again, and I had another talk with Tweedale, and I think I talked with Mr. Gillen about it. Anyway, I went down and had a talk with Bolling; sent for Bolling and asked him to come down to my office. There was some plan at that time to name Tweedale comptroller, and I heard that Mr. Tweedale was going to name Bolling treasurer.

I went back to Mr. Tweedale in his office, in the night, and told him I thought I would like to go into that a little further, because if there was any truth in it I thought it would be a very bad idea to make Bolling treasurer of the Shipping Board, that the matter continually came up. Tweedale again assured me that he had gone into it and the matter had been investigated by the Department of Justice at the time, some year before, and that he regarded it as a blackmailing scheme on the part of Sands.

The CHAIRMAN. When was this he told you this?

Mr. MEEHAN. This was about April or May, this year. Anyway, it was just a few days before Tweedale was made comptroller of the Shipping Board. But I sent for Bolling, had him come down to my office, and I told him that it was a rather delicate matter; but these stories had reached me from various sources and I wanted to go into it. Bolling said he was very glad I had brought it up and said that the matter had already been investigated by the Department of Justice. I said, "Well, have you any objection to showing me your books and papers?" He said, "Not a bit." I said, "Well, we will go right up to your office now. Have you got them here, your private records?" And he said, "Yes; I have."

And I went up, and he called a young man—I believe his name is Fitzgerald—and said, "I wish you would open the safe and let Mr. Meehan get these papers." I got some papers out of the safe and went into Bolling's office, and among the papers in the safe was a letter addressed to William G. McAdoo, an anonymous communication, on the letterhead of the McAlpin Hotel in New York. I think it was sent some time in November, 1918, in which the statement was made that Bolling was mixed up with some commission deal involving the Downey Shipbuilding Corporation.

Bolling told me that previous to the receipt of that letter by Mr. McAdoo he had received an anonymous communication, or that Mr. Tumulty had received one, and called him over and spoke to him about it. It was along the same lines. And he told Tumulty at the time that he thought that the thing to do was to turn it over to the Department of Justice and have an investigation. And Tumulty explained to him that he had destroyed the letter, and said, "If I were you I would not bother with it." He said he explained to Tumulty at that time that Tucker K. Sands had been trying to blackmail him, in order to force him to use his influence, Bolling's influence, with his brother-in-law, the President, and have the President direct the Attorney General to drop a prosecution of Sands in the District of Columbia.

The CHAIRMAN. At what time?

Mr. MEEHAN. In 1918, at the time Tumulty had received this letter. And the letter that was in his safe, addressed to McAdoo, he informed me had been taken over by him to the Attorney General's office, and the Attorney General at that time assigned Mr. Houston Thompson, a special Assistant Attorney General, and that Mr. Thompson had called in Mr. Bielaski, who was Director of the Investigation Bureau of the Department of Justice, and that later the letter was returned to him by Mr. Thompson, who stated that the investigation had developed, to the satisfaction of the Department of Justice, that there was no truth in it, and that they were of the opinion that it was a blackmailing scheme.

Bolling then went over with me——

The CHAIRMAN. Well, did you find anything else in his papers besides this anonymous letter?

Mr. MEEHAN. Yes; he went over his papers there in connection with this house that he built for Sands, and showed me various canceled notes, etc., there, and communications, showing that he had had relations with Sands for some number of years before he went into the Fleet Corporation, explaining this house transaction, and said that the only money he ever got from Sands at all in any way was in connection with the payment Sands had made on account of the house.

The CHAIRMAN. Just there, he showed you the papers in connection with the house transaction?

Mr. MEEHAN. Yes.

The CHAIRMAN. And explained what that transaction was?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. And showed you canceled notes that Mr. Sands had paid?

Mr. MEEHAN. Well, no; I don't know that he showed me canceled notes, but he had an account there.

The CHAIRMAN. Oh, he showed you entries on the account?

Mr. MEEHAN. That there had been renewals of notes—that is what it was—and he had the dates showing the various times. I think Sands originally gave him a note for \$6,000, made a payment on it, and then that note was renewed, and at this time, as I recall, it had been reduced to something like \$1,500, or somewhere around \$1,000, and that Sands still owed him money on that note.

And then, among the other papers in his safe was a carbon copy of a letter addressed by him to Tucker Sands along about the 1st of October, 1918, in which he declined to intercede in Mr. Sands's behalf with——

The CHAIRMAN. See if that might have been the original of the letter which you saw [showing witness letter]?

Mr. MEEHAN. I should say that that is the original. Anyhow, it was very much similar.

The CHAIRMAN. That is the letter identified by Mr. Sands under examination Saturday.

Mr. MEEHAN. Yes. What is the date of that, Mr. Chairman?

The CHAIRMAN. The 18th of October.

Mr. MEEHAN. 1918?

The CHAIRMAN. Yes, sir.

Mr. MEEHAN. Well, I talked the matter over then with Admiral Benson. Admiral Benson explained to me that Mr. Bolling had voluntarily come to him before accepting the appointment of treasurer, told him these stories, and the admiral was satisfied with them. I told the admiral, even after talking with Bolling, that it appeared very much to me as if there was an attempt to threaten Bolling with exposure unless he used his influence with the President to have Sands relieved from prosecution, and it happened that among the very first investigations conducted by our department, which was conducted by Mr. Richardson, in April, 1918, I got a very definite impression from that investigation that Mr. Tucker K. Sands was crooked, and that was in connection with the Atlantic Life Boat Co.

As a result of the investigation, we recommended that the contract be canceled, and I believe it was canceled. Sands at that time was doing business with a man, I believe, by the name of Mickey, and on account of the information, the impression that I had obtained from that investigation in April, 1918, of Tucker K. Sands, plus his later indictment for violation of the national banking laws, I was not inclined to go further with an investigation, inasmuch as Sands was, I thought, not a man to be trusted.

Later Mr. Schwarzkopf and Alfred W. McCann, of the New York Globe, came to see me—oh, just before that, I heard that Mr. McCann, who was then publishing a series of articles on the Shipping Board, was going to publish—I remember that was in May—an article based upon these rumors involving Mr. Bolling, and I heard that his informant was one Frank Fuller, a man whom up to that time I had not heard of. I made some inquiry, however, and found that Frank Fuller had been convicted on a charge of forgery, I believe, or uttering forged instruments, in Washington, D. C., in December, 1919, and my informant stated that Fuller, in telling his story to McCann, had backed it up with this statement, that he could substantiate it by Sands himself.

I talked this matter over with Mr. Fisher, and finally decided to send one of the men in my office to Mr. McCann, to tell him that if he had any information that was susceptible of corroboration I would be glad to have it, but that I was informed that his informant in this case was one Frank Fuller, and that I wanted Lieut. Hart, who went to him, to tell him that Fuller had been convicted.

Mr. McCann, according to the story brought back to me by Mr. Hart, had some very uncomplimentary things to say about me. At the time he rather got the impression that I was part of the gang down there and was up to covering Mr. Bolling up. Mr. Hart told him that he had known me for 15 or 20 years and that he thought his impressions were wrong. Mr. McCann stated that it was a lie that Fuller had been convicted, that he had talked the matter over with Fuller, and Fuller had not been convicted, but had assured him that he had been acquitted in Washington.

The CHAIRMAN. That is what he told Hart. Now, what have you that was told you?

Mr. MEEHAN. Well, when McCann came to see me he also repeated to me what Hart told me he told him to the effect that I was wrong in saying Mr. Fuller had been convicted. I called for my file and had a certified transcript of the court record, and I told McCann, I said,

"Well, I did not go over and make this transcript myself, but I believe it to be true. I sent a very reliable man over." And he said, "Well, you are all wrong, because Fuller was acquitted." I said, "Well, the record does not show it," and I said, "Here is the record, and the courthouse is but a very few blocks from here, and I would suggest you go over and see it."

Mr. McCann talked with me a while and pulled a letter out. He had quite a lot of photostats of things that Fuller had turned over to him, according to his statement, largely dealing with Fuller's relations with P. D. Armour, jr., and the questions that led up to his prosecution. And among the other things he pulled a letter out on Shipping Board paper addressed to Mr. Fuller and signed R. W. Bolling. McCann asked me if I recognized that signature, and I told him I was satisfied that was Mr. Bolling's signature, and in the letter—it was a rather friendly letter addressed by Mr. Bolling to Mr. Fuller, and I think it referred to the fact that he and Mrs. Bolling had been out of the city and on returning had found a gift from Mr. Fuller and thanked him for a box of soap, etc.

McCann said, "Well, does that prove that Bolling is a crook?" I said, "I don't think so, Mr. McCann." I said, "From what I have heard about that man Fuller—he represented this Columbia Hotel Supply Co.—I have an idea that he sent boxes like that to a good many people around here, including officials." "Well," he said, "Meehan, you are an old newspaper man and you have got sense enough to read between the lines." He said, "You see more than that in it; you see enough to show you that Wilmer Bolling is a crook." I said, "No; I don't see it." He said, "Well read it over again," and I did. He said, "Now you confess that you don't see anything?" I said, "No; I think Bolling perhaps was indiscreet in writing that letter." He said, "Well, what do you think he meant by 'and so forth,' where he thanks Fuller for a box of soap, etc.?" "Well," I said, "does Fuller state that 'and so forth' indicated something else?" And McCann declined to say.

He and Schwarzkopf then conferred for a few minutes, and McCann wanted to know of Schwarzkopf whether he thought it was worth while going any further with me, as if he rather had the impression that I was rather trying to shield Mr. Bolling. However, I told Mr. McCann that I would go further in an investigation of Mr. Bolling than perhaps any other man whose name had been brought into our division, because of his relation and his position, but I did not feel like pursuing the thing further on the uncorroborated testimony of men that I regarded as incredible.

McCann then pulled from his grip what purported to be an affidavit signed by Tucker K. Sands, sitting some distance from me, and he read it. When he read it I said, "Is that signed?" And he said, "No; but Mr. Sands is to sign it. We are going right back to his office now, and he is going to sign it." "Well," I said, "bring it in when he signs it." I said, "If Sands signs that, if you are telling me the truth and Sands signs that, I think we will go further with this matter."

Well, I saw Mr. Schwarzkopf and Mr. McCann at their hotel, the Lafayette, the following morning, and Sands had not signed it, but they were going back, they claimed that they had not seen him, that

he was not in his office, that they were going back over. And I went over to the Department of Justice, and later they showed up in my office with the unsigned affidavit, and I asked permission to photostat it, which was done; and later they went back to Sands, I believe, and left the original with him. And they then made an affidavit, the two of them, John Schwarzkopf and Alfred W. McCann, to the effect that the contents of this affidavit as drawn up and not signed, were based upon information given to them in Sands's office. I asked Mr. McCann what he proposed to do about it. He said that he did not know just what he would do, that he would probably make it public when the Downey suit against the New York Globe came to trial.

And after that matter came up I called Mr. Bolling down in my office again, had another talk with Admiral Benson, and called Mr. Bolling down in my office, and told him that Sands had made a statement of this kind. I went up to Bolling's office with him, and read over the statement. Bolling again went over with me all the facts that he had previously gone over, and I was still of the opinion that Bolling was the victim of attempted blackmail. Bolling has the appearance of being a much younger man than they tell me he is; I heard some one say the other day that he was 40 years of age. He does not look that, and does not appear to be that.

I went back and talked to the Admiral about it afterwards.

The CHAIRMAN. When was this?

Mr. MEEHAN. This was in, I should say, some time around the 1st of June.

The CHAIRMAN. This year?

Mr. MEEHAN. Yes; and I got in touch again with this—I talked it over with Mr. Fisher; and we both were a little bit puzzled about the two sets of notes, the Downey notes and the so-called—the notes that arose in connection with Robertson and Bolling——

The CHAIRMAN. Stock brokerage?

Mr. MEEHAN. Stock brokerage business; so I sent for this man Beckerly. I told Beckerly that I was not thoroughly satisfied with this thing and I wanted him to deliver to me—Beckerly told me that in order to—that Sands had threatened exposure of Bolling and Robertson unless they paid him \$25,000 fee for acting for them in the brokerage business.

The CHAIRMAN. We will stop for a few minutes and take a short recess.

(A short recess was here taken.)

The CHAIRMAN. Now, if you will proceed, Mr. Meehan.

Mr. MEEHAN. Where was I?

(Last sentence read by reporter.)

Mr. MEEHAN. As I explained, Beckerly told me that Sands had threatened exposure of Bolling and Robertson's dealings in the brokerage business unless he was paid a fee or commission of \$25,000, and in order to avoid the payment thereof and to conceal from Sands certain assets of the company, that Robertson and his partner had entered into a contract with Beckerly and had turned over to Beckerly as a dummy all of the assets of that old organization; and I told them I would be very glad to see all the papers, and there were some things in question with them, just what they were all I never could get the straight of it; and he agreed to send them to me.

The CHAIRMAN. Who—Beckerly did?

Mr. MEEHAN. Beckerly. And after Beckerly left my office, I shadowed him—had him shadowed. He agreed to say nothing to Robertson, Bolling, or anyone else. But he left my office and went to Bolling's office. He was in Bolling's office for perhaps a couple of hours. About three or four days later he wrote me a most unusual letter, something to the effect that the matter I was investigating, affecting Mr. Robertson, etc., why, he had no further information, etc., on it. I rather felt that Beckerly had no right to write me a letter like that in connection with an investigation of men occupying as high a position as Mr. Bolling occupied at the time.

Another step I took after talking with—and I have never seen Beckerly since.

Another step I took after talking with McCann and Schwarzkopf—McCann, in his statement to me, appeared to be so certain that this man Fuller had been framed, as he put it, in the trial at Washington, and that he was not a crook; that he was painted. I made an effort then to investigate Fuller independently, to see if there was any truth in McCann's theory, and if Fuller was a man any credence could be placed in. I was informed that Fuller at one time was a director of the Washington Hotel Co. I knew Mr. Robert Downs, the president of the company, very well, and have known him for a number of years, when he was manager of the Shoreham Hotel, and I went over to Mr. Downs's hotel, the Washington, and spent about six hours with him, and Downs—from what Downs told me, I had my previous opinion of Fuller fully emphasized. Downs told me that Fuller had put over one of those so-called P. D. Armour, jr., notes on him, and that independent of the matter that Fuller was tried on in court he could prove that—he thought that note was a forgery; anyhow, he had to pay it; P. D. Armour denied it and Fuller said he paid \$2,000 on it. And so after talking with Downs I talked the matter over with Mr. Fisher, and I am of the opinion that I would hardly be warranted in going much further with the investigation or statements made by two men who I could not put any credence in.

The CHAIRMAN. Now, if this charge was true did you expect Mr. Bolling to tell you "Yes, I did this," and "I shared in the proceeds," when you went to see him?

Mr. MEEHAN. No; but you can tell as a rule, Mr. Walsh, I think, in dealing with people of that kind, when they are talking to you, whether they tell you the truth; you get an impression.

The CHAIRMAN. Mr. Bolling did tell you that all the money that he ever received from Mr. Sands—

Mr. MEEHAN. Was in connection with his house.

The CHAIRMAN. In connection with his house?

Mr. MEEHAN. Yes; but I would like to say here that the statement contained in the newspapers Sunday morning as emanating from Mr. Bolling, in which, if he was correctly quoted, he stated that Sands came to him and told him he had made \$1,000 commission in connection with bending machines for the Downey Co., and offered him \$500, and that later he took \$500 from Sands as a profit on the house; that Mr. Bolling in all of his talks to me made no reference to anything of that kind.

The CHAIRMAN. That is the first time you ever heard of it?

Mr. MEEHAN. The first I ever heard of it.

The CHAIRMAN. Now, did you talk with Mr. Sisler?

Mr. MEEHAN. No, sir.

The CHAIRMAN. Did you ever hear that he was involved in this note transaction?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. But you never talked with him?

Mr. MEEHAN. No, sir.

The CHAIRMAN. Did you ever talk with Mr. Sands?

Mr. MEEHAN. No, sir.

The CHAIRMAN. Did you ever talk with Mr. Fuller?

Mr. MEEHAN. No, sir.

The CHAIRMAN. Did you ever talk with a Mr. Musher?

Mr. MEEHAN. No, sir.

The CHAIRMAN. Did you ever confer with or talk with any official of the Title & Trust Co. of Connellsville, Pa.?

Mr. MEEHAN. No, sir.

The CHAIRMAN. Or the Takoma Park Bank, Washington?

Mr. MEEHAN. No, sir.

The CHAIRMAN. Or of the Hanover Bank, New York?

Mr. MEEHAN. No, sir.

The CHAIRMAN. Or of the Corn Exchange Bank, New York?

Mr. MEEHAN. No, sir.

The CHAIRMAN. Or Mr. E. E. Gayno?

Mr. MEEHAN. Not about this matter.

The CHAIRMAN. Not about this matter?

Mr. MEEHAN. No, sir.

The CHAIRMAN. He was an officer of the Shipping Board?

Mr. MEEHAN. At one time he was resident auditor, I believe, of the Downey plant.

The CHAIRMAN. Where? At the Downey plant?

Mr. MEEHAN. Yes.

The CHAIRMAN. Or to Mr. J. F. Overend, of Baltimore?

Mr. MEEHAN. I have talked with Mr. Overend a good deal.

The CHAIRMAN. About this matter?

Mr. MEEHAN. Not about this matter, because I never heard before that Overend, or Gayno either, knew anything about the alleged note transaction.

The CHAIRMAN. You have never heard that these two members of the auditing force had questioned some item on the books of the corporation?

Mr. MEEHAN. Well, I knew—yes; I knew that they had; that is a very common practice for the resident auditors to question those items.

The CHAIRMAN. You knew they had in this instance?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. Of the Downey?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. And that it totaled \$40,000?

Mr. MEEHAN. No; I knew nothing about this amount.

The CHAIRMAN. But you have talked with Mr. Murtaugh about this matter, and Mr. John Cranor?

Mr. MEEHAN. No; I didn't know that Mr. Murtaugh had any knowledge of this at all until his name was mentioned here.

The CHAIRMAN. Or any officer or investigator of the Department of Justice?

Mr. MEEHAN. Except Mr. Burke.

The CHAIRMAN. Mr. Burke?

Mr. MEEHAN. Who is now with us.

The CHAIRMAN. Who is your superior?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. Was he the gentleman who made the investigation for the Department of Justice?

Mr. MEEHAN. No; when Burke came from the Department of Justice into our department, I took this matter up with him because I never really considered the investigation closed, it is not so marked in our records.

The CHAIRMAN. I see.

Mr. MEEHAN. It is not an easy investigation, for a good many reasons, and I took it up with Mr. Burke and he had no recollection of it in the Department of Justice and stated that he would look it up; and he did and later informed me that a very thorough investigation had been made, and that, under the direction of Mr. Huston Thompson, as Mr. Bolling had informed me, Mr. Thompson informed him that he reached the conclusion that it was an attempt to blackmail on the part of Sands, or Sands and Fuller, or one of them, or someone related to those transactions.

The CHAIRMAN. Now, as a matter of fact, you haven't made any investigation yourself of this matter at all, have you, Mr. Meehan?

Mr. MEEHAN. No more than what I told you.

The CHAIRMAN. You don't call that an investigation?

Mr. MEEHAN. Well, if I had allegations made against a man of any standing at all, and the allegations came from crooks, or men that have been—or are under indictment for violation of Federal statutes, or have been convicted, why, I would not be inclined to go as far with an investigation of that kind.

The CHAIRMAN. I know, my question is, you have not made any investigation as such?

Mr. MEEHAN. Well, it has not been a thorough investigation, perhaps.

The CHAIRMAN. Well, it was investigating a crooked transaction, wasn't it?

Mr. MEEHAN. Yes; alleged crooked transaction.

The CHAIRMAN. You would expect crooks to be connected with it, wouldn't you?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. And yet the existence of these notes was stated, and you have never even seen them.

Mr. MEEHAN. No, sir.

The CHAIRMAN. Or seen records of them?

Mr. MEEHAN. No; I would like to say right in that connection, Mr. Chairman, that Mr. Fisher has known Alonzo Tweedale for a great many years longer than I have known him, and Mr. Fisher told me that Admiral Benson agreed, that he felt that Mr. Bolling was not guilty of anything, but was the victim of attempted blackmail, he thought; I talked over with Mr. Fisher just what I told you here, and what I told McCann and Schwarzkopf, and that unless they

had some corroborative evidence of what they got from Fuller and Sands, on account of the character of those men, that I thought it would very likely be an injustice to go any further with the matter because a Federal investigator going around inquiring about any person has a tendency to reflect upon him, and I didn't feel it was justice to do so without some definite information from a person of some reliability.

The CHAIRMAN. Well, it is a very serious charge going the rounds, or rumors of it in the air——

Mr. MEEHAN. Yes.

The CHAIRMAN. That a member of the Shipping Board had participated in the division of commissions for the awarding of a contract, particularly when one of the individuals involved happens to be a brother-in-law of the Chief Executive of the Nation.

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. And if a thorough investigation is made by the Shipping Board or the Department of Justice, don't you believe the person against whom the charges have been made, or concerning whom these statements have been circulated, is entitled to have not only the utmost publicity to the effect that the investigation is going on, but when it is considered that if he is innocent that he should be given the findings of the investigators, which should also be given publicity?

Mr. MEEHAN. Yes; I do not think—I think it is a very good thing that the matter has come out.

The CHAIRMAN. Now, Mr. Meehan, you have been conducting a great many investigations for this Shipping Board and Fleet Corporation?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. Haven't you?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. And you have known a great many charges or statements made by responsible people to be lacking information?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. And you have ascertained, as a result of your work, that many charges made by people on hearsay could never be substantiated?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. And, on the other hand, you have found many charges and statements made, perhaps, on hearsay to have been well founded?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. And you have brought to book many improper transactions?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. In the Shipping Board?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. Do you consider that this investigation, such as has been made by the Department of Justice, by Mr. Huston Thompson, the interview you have had with Mr. Bolling himself, the fact that an indictment is pending against Mr. Sands, that Mr. Fuller has been found guilty of uttering some forged documents, and that none of these other parties, so far as you know, have been seen by your department, who might have knowledge of the transaction, is a sufficient investigation for you?

Mr. MEEHAN. I was informed, Mr. Walsh, though, that a special Assistant Attorney General and the Department of Justice had made a thorough investigation, and at the time I knew that the Department of Justice—Mr. Bishop so informed me—had bank examiners in there in charge of the records; and I thought, with my impression, talking with Bolling, and the fact that these statements came from these two men, plus the fact that a special Assistant Attorney General had conducted an investigation, that plus the fact that Bolling had been threatened in these letters, anonymous communications sent, that it would be an injustice to go further with the investigation unless you've got some corroborative evidence.

The CHAIRMAN. Well, you heard rumors about this matter from others than Mr. Fisher and Admiral Benson and Mr. Tweedale and Mr. Bolling, didn't you?

Mr. MEEHAN. Well, particularly from Mr. Fisher; I heard them from Mr. Fisher.

The CHAIRMAN. But you did hear them from others, didn't you?

Mr. MEEHAN. After I went to Washington; yes, sir.

The CHAIRMAN. It was a kind of a vague rumor in the air?

Mr. MEEHAN. No; it did not come—I did not think it was generally known around the Shipping Board.

The CHAIRMAN. No.

Mr. MEEHAN. And, for instance, in talking with the admiral, I found that the admiral had already been advised by Mr. Bolling, and he had a talk with—I am not sure, but I talked with Judge Payne about it, I think I talked with Mr. Gillen.

The CHAIRMAN. You did talk with Gillen?

Mr. MEEHAN. I did talk with Gillen—I am sure I did; Gillen informed me that Bolling had talked the matter over with him and he had the same impression, it was a blackmail scheme.

The CHAIRMAN. And so far as the files of the Shipping Board show, in your department at least, there is no record or report of the investigation that was made, of the conclusions that were reached, is there?

Mr. MEEHAN. Well, there is a record showing that the Department of Justice, according to statements made by Mr. Huston Thompson, had made a thorough investigation, under his direction, and found them baseless; and at the time they had bank examiners in charge of the records, and I considered that was thorough, at least sufficiently thorough, without the matter being brought up by such men as Sands and Fuller.

The CHAIRMAN. This Department of Justice investigation was made several months ago?

Mr. MEEHAN. More than a year ago.

The CHAIRMAN. More than a year ago?

Mr. MEEHAN. Yes.

The CHAIRMAN. And a few months ago you undertook to look into it yourself?

Mr. MEEHAN. Yes, sir; and found that the Department of Justice had made this investigation, and had turned back to Bolling this anonymous communication which was addressed to McAdoo.

The CHAIRMAN. Now, did the papers in this Department of Justice investigation show who they saw or what they found, or what is the report?

Mr. MEEHAN. Just the report?

The CHAIRMAN. That he looked into this matter, made a thorough investigation, and concluded that those charges were baseless; that it was an attempt to blackmail Mr. Bolling, but there is nothing in the report?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. That is about all that the Department of Justice report said?

Mr. MEEHAN. Yes.

The CHAIRMAN. Well, you have had experience with Department of Justice investigations in Shipping Board matters before, haven't you, Mr. Meehan?

Mr. MEEHAN. Yes.

The CHAIRMAN. You have investigated some matters that were previously investigated by the Department of Justice, haven't you?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. You found that the Department of Justice investigation was not as thorough as it might have been in some instances?

Mr. MEEHAN. As affecting the Shipping Board in some cases; yes, sir; but I think that is easily explained, because certain things we have the records of and they have not.

The CHAIRMAN. Yes. In this case you have the records.

Mr. MEEHAN. No, no; they have the records in this case.

The CHAIRMAN. What is that?

Mr. MEEHAN. They had the records in this case.

The CHAIRMAN. They had the contracts and the auditors' reports?

Mr. MEEHAN. Yes; we had the contracts.

The CHAIRMAN. The Shipping Board had those, didn't they?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. The auditor's report?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. Mr. Bolling's personal file?

Mr. MEEHAN. There was nothing in that.

The CHAIRMAN. No; but they had it?

Mr. MEEHAN. Yes.

The CHAIRMAN. And you had the file of Mr. Sisler, the secretary?

Mr. MEEHAN. Yes.

The CHAIRMAN. In the employ of the Shipping Board?

Mr. MEEHAN. Yes.

The CHAIRMAN. And Mr. E. E. Gayno and Mr. John F. Overend were the auditors?

Mr. MEEHAN. As I say, I had no knowledge at all until to-day, that there was any claim made that they knew anything about this.

The CHAIRMAN. All this involved a corporation building ships for the Shipping Board?

Mr. MEEHAN. Yes.

The CHAIRMAN. You knew that the Shipping Board presumably was paying them money?

Mr. MEEHAN. Yes.

The CHAIRMAN. And that the corporation's account was subject to audit, insofar as the ship construction went, by Shipping Board officials?

Mr. MEEHAN. Yes.

The CHAIRMAN. And you, in spite of all this, considered that after you had talked with Mr. Bolling, Mr. Tweedale, Mr. Fisher, and Admiral Benson, and had seen the report of the Department of Justice, that nothing further was necessary by way of investigation?

Mr. MEEHAN. Well, I told you that I never considered the matter entirely closed.

The CHAIRMAN. I see.

Mr. MEEHAN. It is not so marked. It is not an easy investigation, and while I believe that Bolling was the victim of attempted blackmail, I am not overready to give a clean bill of health to any man. In fact, it is much easier to convict a man than it is to give him a clean bill of health; but we have on more than one occasion, and other departments of the Government that had investigation work to do, been severely criticized because an investigator will naturally bring to the attention of a man's neighbors, or his bankers, and others associated with him, the very fact that he is under investigation, and it is a matter that is calculated to reflect very seriously upon him, and without more definite information, and information from people that I believe could be relied upon, I did not feel that it was the proper thing to go any further. As I said, one of the first investigations handled in our department affected Mr. Sands, in connection with the Atlantic Life Boat Co. I have never seen Sands, and I got a very definite impression that time of the character of the man I have convinced myself that Sands is.

The CHAIRMAN. Well, now, do you think that, from what you knew of Mr. Sands, with reference to the Atlantic Life Boat Co. transaction, he might perhaps be the kind of a man who would try to bribe a Shipping Board official for the purpose of getting a contract?

Mr. MEEHAN. Yes, sir; that is.

The CHAIRMAN. And he also might be the kind of a man that would say that he tried to bribe him and hold him up for blackmail?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. He being that sort of a man that might try to do one or the other of those two things, from what knowledge you were able to glean from the matter you formed the opinion that he did not try to bribe any Shipping Board officer and that he was trying to hold Mr. Bolling up for blackmail?

Mr. MEEHAN. That was largely based on these anonymous communications.

The CHAIRMAN. Do you pay much attention to anonymous communications, Mr. Meehan?

Mr. MEEHAN. In a case of this kind, Mr. Chairman, Fuller had been convicted, Sands was under indictment, here was the letter that Bolling had written Sands declining to intercede for him, and this letter—this anonymous communication that I have—was addressed not to the Attorney General as an honest man might have addressed it if it was his purpose to advise the Government, but it was addressed to a man whom the writer had every reason to suspect would bring it to the attention of Mr. Bolling; it was addressed to Mr. McAdoo, who was related by marriage to Mr. Bolling.

The CHAIRMAN. Well, now, when was this?

Mr. MEEHAN. That was some time in 1918 or 1919; the McAdoo letter I don't remember, but I can get the letter for you; and Tumulty—

The CHAIRMAN. Can not you state which year it was? Fix the year?

Mr. MEEHAN. It was either in the winter of 1918 or early in 1919; I would like to be more definite.

The CHAIRMAN. Don't you know, as a matter of fact, that Mr Fuller had not been indicted at that time at all?

Mr. MEEHAN. Mr. Fuller was indicted, I believe, in October, 1918—no; 1919, I guess it was.

The CHAIRMAN. So he had not been indicted at all at that time?

Mr. MEEHAN. No; that is right.

The CHAIRMAN. So this matter—

Mr. MEEHAN. Mr. Fuller was—what I was driving at there—Mr. Fuller was the informant in this so far as McCann was concerned, and Fuller and Sands had had relations, and Mr. Fuller had tried to give McCann the impression, according to McCann's statement to me, that he had given Bolling something himself—the report, etc.

The CHAIRMAN. The "etc." might have been a can of talcum powder or other little toilet accessories that are put in these complimentary packages; you know that?

Mr. MEEHAN. It might have been. What is Mr. Fuller's stand about it? I didn't hear all of his testimony.

The CHAIRMAN. He did not testify as to that at all, as I recall it. As a matter of fact, Mr. Fuller was acquitted on the charge of forgery and was found guilty on the count of uttering, wasn't he, Mr. Meehan?

Mr. MEEHAN. I am not sure, Mr. Chairman, just which count; but I know—

The CHAIRMAN. Well, we put that record in; that shows in the certified record of the District Court of the District of Columbia. The matter was not undertaken by you until this year, was it?

Mr. MEEHAN. No; about April, 1920.

The CHAIRMAN. The transactions are alleged to have occurred in 1918?

Mr. MEEHAN. 1918; originally in 1917 we heard.

The CHAIRMAN. In 1917?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. Now, I think that that is all for the present. Mr. Kelley, have you some questions?

Mr. KELLEY. Mr. Meehan, when did you first come into possession of the information that there were four \$10,000 notes involved in this transaction?

Mr. MEEHAN. That was the day that McCann and Schwarzkopf had talked with Sands in Washington. I heard perhaps two weeks or three weeks before that that Fuller, in his statement to McCann, made a week before, had made some reference to three or four notes. But I had no definite information until the day that McCann and Schwarzkopf came in.

Mr. KELLEY. On what theory, as a professional man in your capacity, would the Downey people give four notes of \$10,000 each which would get in the hands of Mr. Sands?

Mr. MEEHAN. Well, I expressed my opinion to the general counsel of the Shipping Board to the effect that my impression was that Downey had given the notes to Sands for the purpose of having Sands camouflage the standing of Downey's Providence concern and thereby mislead the Emergency Fleet into believing that that

concern had more financial support than in reality it had. That was my impression, and after—there is a reference in that affidavit that Schwarzkopf drew up that rather indicates that there might have been that understanding, and Sands was very particular not to have it in, because he evidently knew the national banking laws better than he knew some of the other laws. Of course, that is only an opinion.

Mr. KELLEY. That would naturally lead you to make an investigation of the reports that had been made to the Fleet Corporation by different people on this corporation at Providence, the Providence Engineering Co., and the Downey Shipbuilding Corporation?

Mr. MEEHAN. Well, that was——

Mr. KELLEY. Now, I am going to ask, what investigation did you make of the reports in the hands of the credit manager on this company?

Mr. MEEHAN. I do not know as I ever saw the report in the hands of the credit manager on that, but we have made quite an extensive investigation of Downey's operations.

Mr. KELLEY. Starting in at the basis of this, Mr. Meehan, I do not see how you could avoid trying to discover just where the squeak was here.

Mr. MEEHAN. Just where what was?

Mr. KELLEY. The squeak. You knew where the grease was applied, by these \$10,000 notes being given by Downey. He must have given them for something.

Mr. MEEHAN. Yes.

Mr. KELLEY. And yet you did not investigate the credit department?

Mr. MEEHAN. Well, that was in 1918, when that contract was let down there by the Shipping Board, and it did not come to my office at all until 1920.

Mr. KELLEY. Yes. Now, when you were called into the case in 1920, it would seem as though the first thing you would have done would be to inquire what would be the necessity in the first place for Downey giving \$40,000 to anybody to get a contract. What I am getting at is, did you make that inquiry?

Mr. MEEHAN. No; I did not, because I did not think there was any necessity. If \$40,000 were given to Sands for procuring a contract—as a matter of fact, I can not believe that, because contracts—the Emergency Fleet Corporation at that time, Mr. Kelley, were practically begging people to take contracts, and Downey was already in the shipbuilding business, and we let many contracts to people who never were in the shipbuilding business.

Mr. KELLEY. And yet you do not know whether there was any adverse report on this corporation or not?

Mr. MEEHAN. No; but I know one thing; I know we let people have contracts who had no money at all, many of them.

Mr. KELLEY. Yes; and I say you do not know from an investigation whether there were any adverse reports on this concern or not, with the credit department?

Mr. MEEHAN. No; I do not.

Mr. KELLEY. Do you not think that would have been a very natural place to start your inquiry, to go into the credit department and see what was the matter, what blocked this contract?

Mr. MEEHAN. Well, we have independent——

Mr. KELLEY. As bearing, you understand——

Mr. MEEHAN. Well, independent of this question——

Mr. KELLEY. Just a moment; as bearing upon the question as to whether or not anybody had received \$40,000?

Mr. MEEHAN. Well, if Sands received \$40,000, it would not be any funeral of the Fleet Corporation if Bolling did not get any of it. If he did not turn around and charge it back up to us, and that matter was taken up with the district comptroller here, and the general auditor's office, and——

Mr. KELLEY. You would not want the situation to arise, would you, where it would be necessary for anybody to spend \$40,000 to get a contract from the Fleet Corporation?

Mr. MEEHAN. No; but, Mr. Kelley, that is——

Mr. KELLEY. Now, there must have been some reason why they could not get a contract, if they paid \$40,000 to get one; is that not true?

Mr. MEEHAN. Well, there is no allegation that Mr. Downey paid anything to get his \$15,000,000 contract, the first one.

Mr. KELLEY. No.

Mr. MEEHAN. But there are a great many shipbuilding corporations who had lawyers and other representatives in Washington to whom they paid money for looking out for their interests there.

Mr. KELLEY. But after Mr. Downey had taken one contract from the Government he did not need this?

Mr. MEEHAN. No; that is the reason I do not believe he paid Sands \$40,000 for procuring a contract.

Mr. KELLEY. Well, here is evidence here, is there not, that these notes were paid?

Mr. MEEHAN. Well, Sands is not very definite as to whether it was altogether for procuring the contract.

Mr. KELLEY. Well, you knew it was paid by Downey for something?

Mr. MEEHAN. Yes.

Mr. KELLEY. And Downey was a shipbuilder?

Mr. MEEHAN. Yes.

Mr. KELLEY. And Sands was a crooked banker in Washington?

Mr. MEEHAN. Yes.

Mr. KELLEY. You knew all that?

Mr. MEEHAN. Yes.

Mr. KELLEY. And still you did not inquire, although Mr. Sands' report to the board, to the credit man, was made upon the day that this contract was granted, or was signed?

Mr. MEEHAN. Well, I did not know.

Mr. KELLEY. You could have found that out if you consulted the files, could you not, of the credit department?

Mr. MEEHAN. Yes; but I never heard until to-day that Sands had written any such letter.

Mr. KELLEY. Why did you not go to the credit department and see what was the matter with this contract of the Downey people?

Mr. MEEHAN. Well, I didn't——

Mr. KELLEY. Then you would have found Sands' letter there, would you not?

Mr. MEEHAN. I had no reason to think there was anything wrong with the letting of a contract to Downey, therefore I did not go to the credit department, because——

Mr. KELLEY. Although you knew that Downey had paid Sands, a broker on the outside, \$40,000 in notes?

Mr. MEEHAN. Well, I knew that the allegation was made to that effect, yes.

Mr. KELLEY. Well, that was the basis of all this discussion, was it not?

Mr. MEEHAN. Yes.

Mr. KELLEY. You knew that was a fact?

Mr. MEEHAN. I knew that the charge was made.

Mr. KELLEY. Well, did you not know these notes were in existence?

Mr. MEEHAN. Yes; I knew that—I believed they were in existence.

Mr. KELLEY. At least you could easily have found that out from Mr. Fisher, could you not?

Mr. MEEHAN. Yes; I did not doubt that at all. I believed they were in existence, but unless that was charged up to us it would not affect the Fleet Corporation at all.

Mr. KELLEY. Well, it would make a great difference whether the credit man in your Fleet Corporation was requiring Mr. Sands to furnish a letter on the day the contract was written?

Mr. MEEHAN. But I did not know that until to-day.

Mr. KELLEY. That is what I am getting at. Why did you not go to the credit department to find out what was the matter with this contract?

Mr. MEEHAN. Well, but, Mr. Kelley, it was not customary to do that.

Mr. KELLEY. This was a different sort of a case.

Mr. MEEHAN. There were hundreds of contracts let to people who had no money, people who had no credit at all. If they were structural iron contractors and could get together an organization that the Fleet Corporation though might build ships, why, they got the contract.

Mr. KELLEY. I do not know as we quite come together on this, Mr. Meehan, because you are an experienced man in this line and I am a novice at it.

Mr. MEEHAN. I know what you are driving at, and here is the point: If it had been customary to let no contract until after the credit department had been satisfied of the financial standing or the man who desired a contract, then it might have been an easy and a natural thing for me to go to the credit department; but that was not the ordinary procedure. Contracts were let to people who had no financial standing, and I do not think I went to the credit department very often on anything.

Mr. KELLEY. Well, suppose these reports in the credit department were all favorable to the Downey people; then on what theory would Mr. Downey pay \$40,000 to Mr. Sands to help him get the contracts or help him bolster up his credit?

Mr. MEEHAN. Well, my theory is that the \$40,000 was paid to Sands for giving him that standing in his bank, letting him have \$100,000 apparently on deposit when he did not have it.

Mr. KELLEY. Did you inquire at the bank to find out when that credit was placed there to the credit of the Downey people?

Mr. MEEHAN. Yes, sir.

Mr. KELLEY. When was that?

Mr. MEEHAN. About the time the contract was let.

Mr. KELLEY. Did you not hear Mr. Sands testify here to-day that it was in July?

Mr. MEEHAN. Something like that.

Mr. KELLEY. And this contract was let on the 14th of March?

Mr. MEEHAN. Yes.

Mr. KELLEY. Well, how do you explain that?

Mr. MEEHAN. Well, he had agreed to go into the deal with him, and when the notes were given, I do not think—the notes were dated in March.

Mr. KELLEY. March 15?

Mr. MEEHAN. March 15.

Mr. KELLEY. The day after the contract was awarded?

Mr. MEEHAN. Yes. Well, Sands had not collected the money at that time, and it takes some little time to put a deal through. Of course, I am testifying here to a lot of opinion.

Mr. KELLEY. What I am getting at is, why you did not inquire into this thing from the very source of the trouble?

Mr. MEEHAN. The credit department—I have tried to explain to you that we practically had no credit department, Mr. Kelley, and——

Mr. KELLEY. Well, here are reports, Mr. Meehan.

Mr. MEEHAN. Yes; I know.

Mr. KELLEY. Here are reports that they sent out. Mr. Radford was at the head of the contract division, was he not, at that time? Do you remember Mr. Radford?

Mr. MEEHAN. No.

Mr. KELLEY. You do not know him at all?

Mr. MEEHAN. No.

Mr. KELLEY. You do not know where he is now?

Mr. MEEHAN. No. He was the head of the contract department?

Mr. KELLEY. He was at the head of the contract department.

Mr. MEEHAN. Of the Shipping Board or the Fleet Corporation?

Mr. KELLEY. Well, whoever let the contract.

Mr. MEEHAN. The Shipping Board, I guess. It was let in Washington. Not the head of our contract department; I was with the Fleet Corporation at Philadelphia until 1920.

Mr. KELLEY. No; this was the Fleet Corporation; he was with the Fleet Corporation.

Mr. MEEHAN. A man named Ferris was head of the contract department of the Fleet Corporation.

The CHAIRMAN. Mr. Kelley, will you permit a question here?

Mr. KELLEY. Yes.

The CHAIRMAN. You say that contracts were awarded to men who had no money, no financial resources?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. And also to men who had no money, no financial resources, and no shipyards, no plants?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. And in such cases the Fleet Corporation financed the operation?

Mr. MEEHAN. Yes, sir; in nearly all cases. Nearly all the shipbuilding operations were financed by the Fleet Corporation. Even corporations that have money, that have financial standing, they really had their shipbuilding operations financed directly by the Fleet Corporation.

The CHAIRMAN. Well, it was necessary owing to the emergency, was it not?

Mr. MEEHAN. I think so; yes, sir.

The CHAIRMAN. There perhaps might have been a little more discretion used, in your judgment?

Mr. MEEHAN. In peace times I am sure there would have been, but the cry then was for ships. A man who had a reputation for building big buildings in Baltimore, for instance, we would give a contract for building wood ships; and take a structural-steel man, an erector in Chicago, he could get a contract for building steel ships, because we had very few shipbuilders in those days. But I know we had scores of contractors who had no finances at all.

The CHAIRMAN. There is just one further question. Do you know of any contract that was let in 1918 that was not first investigated by the credit department of the Shipping Board?

Mr. MEEHAN. I could not say, because I had no connection with the Shipping Board in 1918.

The CHAIRMAN. Well, the credit department of the Fleet Corporation in 1918; do you know of a single contract that was made during that year, or since, that was not first looked into by the credit department of the Fleet Corporation or the Shipping Board?

Mr. MEEHAN. Well, I was not in Washington in 1918. I do not know what the Shipping Board did.

The CHAIRMAN. Well, then, confine it to the Fleet Corporation?

Mr. MEEHAN. But my impression, Mr. Chairman, is that undoubtedly they did not make such investigations, because if a contract were not let unless a man applying for the contract had certain financial standing, there would have been a good many of them never would have gotten contracts.

The CHAIRMAN. I mean since 1918, Mr. Meehan?

Mr. MEEHAN. Well, in 1919 and other years; yes.

The CHAIRMAN. You do not think they were first investigated by the credit department?

Mr. MEEHAN. I do not think so. In some cases I know they were, Mr. Chairman. We conducted some investigations, and I know that on our reports some contractors were turned down.

The CHAIRMAN. Just a further question. Do you not know that there are instances of concerns that were financially able, properly organized and equipped to build ships and engines that were unable to secure contracts with the Shipping Board?

Mr. MEEHAN. Charges have been made to that effect; yes, sir.

The CHAIRMAN. You do not know, you have never investigated that to find out if that is so?

Mr. MEEHAN. Well, I never investigated them where they did not get a contract, no; unless the Shipping Board referred it to me, and we made an investigation, and then they would turn them down on the investigation.

The CHAIRMAN. That is all, Mr. Kelley. Have you anything further?

Mr. KELLEY. Here is a telegram dated the 12th of February, 1918, signed by Radford, sent from Washington, D. C., addressed to C. S. Bookwalter, 115 Broadway, New York:

Home office is in receipt of proposal from Providence Engineering Corporation of Providence, R. I., covering construction of six ocean-going steel tugs, 150 feet in length, the hulls to be built at the Kyle & Purdy plant at City Island, New York, the engines in their own plant. Please investigate both these plants and report by wire of equipment, organization, etc., with recommendation as to their ability to carry out the proposed work.

RADFORD.

That was on the 12th of February?

Mr. MEEHAN. Yes.

Mr. KELLEY. And I quote this paragraph, which is the gist of the answer:

The Providence Engineering Corporation is admirably situated, and no doubt will be equipped to do the class of work that will be required if they receive the contracts, and the writer believes that they will be in a position to make excellent deliveries, and that their tools and equipment is far above the average. The shipping facilities are excellent. They have as before stated, a siding of the New Haven Road, and there are three steamship lines running to New York, which leaves their docks near this plant. There is no doubt in the mind of the writer that if they receive the contracts, they will be able to give them prompt attention, and that they will give satisfactory performance.

Now, after receiving that, what was the necessity, in your judgment, of Mr. Downey paying \$40,000 to anybody to get a contract for those tugs?

Mr. MEEHAN. I do not believe there was any necessity, and I do not believe yet that it was done for that purpose.

Mr. KELLEY. Did you see Mr. Downey and find out what those notes were given for?

Mr. MEEHAN. No, sir.

Mr. KELLEY. Really, Mr. Meehan, you have not investigated this case at all, have you?

Mr. MEEHAN. Well, I have told you exactly what I did.

Mr. KELLEY. I know; you have told me what you have done, but really now, to be frank with the committee——

Mr. MEEHAN. It is up to you, Mr. Kelley, to express your opinion. I have told you what I have done. I am informed the Department of Justice made a thorough investigation of it and reached a conclusion which jibed with the conclusion that I had reached, knowing something about Mr. Sands and something about Mr. Fuller from the records.

Mr. KELLEY. Did you inquire into the question of loans from Mr. Sands by Mr. Bolling; whether Mr. Bolling made any loans, so called, from Mr. Sands?

Mr. MEEHAN. That Sands loaned Bolling money?

Mr. KELLEY. Yes.

Mr. MEEHAN. No. I told you what Bolling told me. The only money that Bolling, pardon me, stated to me that he ever got out of Sands is in connection with the payments on his house. I think Bolling did say that he had from time to time borrowed small sums from Sands, said that he had known Sands for years, they lived near each other.

Mr. KELLEY. That was outside of the question of the house?

Mr. MEEHAN. I think he said that he had borrowed small sums at various times.

Mr. KELLEY. Mr. Bolling told you that?

Mr. MEEHAN. I think so. I am quite sure he did; yes. The only thing in Bolling's statement that he had not told me was the \$500 proposition.

Mr. KELLEY. Well, now, why did you not go over to Mr. Sands's office and ask to see his book, to see how much those loans were and when they were made?

Mr. MEEHAN. Well, I told you awhile ago that my reasons——

Mr. KELLEY. If you really wanted to connect this up closely, Mr. Meehan, that is what you ought to have done, is it not?

Mr. MEEHAN. Well, I told you of a case the other day where we were criticized by Congressmen because we investigated a man in Boston.

Mr. KELLEY. Well, we criticized both ways, I admit that.

Mr. MEEHAN. Yes; I believe you are right on that.

Mr. KELLEY. But you were there, of course, to perform your duty, undoubtedly, to the best of your ability?

Mr. MEEHAN. Well, I felt, with the character of the men making the allegations, that I went quite as far as you or anyone else in a position similar to Bolling would feel that a public investigator had a right to go.

Mr. KELLEY. Well, now, did you inquire into the personal relations between this very desperate man that you speak of as Mr. Sands, and your very estimable man, Mr. Bolling; whether they were great friends or not?

Mr. MEEHAN. I was so informed by Mr. Bolling that they had been close friends until Sands had tried to get him to go to the President and have the Attorney General call off the indictment, and that after that they were not so cordial.

Mr. KELLEY. Well, now, having been great friends, these two men, and one of them a crooked man, would it not have been the part of prudence, don't you think, on your part, to have checked over these loans that Mr. Bolling admitted having made from Mr. Sands, to see what they were, and when they were made, and whether they corresponded with the dates of the cashing of these notes?

Mr. MEEHAN. Well, I may not be as good a judge of human nature as yourself and others, but I rather felt, as I said before—Admiral Benson, Mr. Gillen, and, I think, Judge Payne, too, felt—that these stories were unfounded; and I think those men are men of very calm judgment. I think——

Mr. KELLEY. Really, what your investigation was, then, was this, that Mr. Bolling is a high-type man and Mr. Sands is a man of questionable probity?

Mr. MEEHAN. No; that is not the fact.

Mr. KELLEY. And therefore we believe that Mr. Bolling had nothing to do with this matter?

Mr. MEEHAN. No; I have not said that at all. I told you that as far as——

Mr. KELLEY. And Admiral Benson felt the same way?

Mr. MEEHAN. Admiral Benson felt, and so told me, that he felt that Mr. Bolling was the victim of attempted blackmail.

Mr. KELLEY. Well, now, he got that probably from you, did he not?

Mr. MEEHAN. No.

Mr. KELLEY. Where did he get that?

Mr. MEEHAN. Mr. Bolling, he said, went to him when he was first named chairman of the board and voluntarily told him the whole thing.

Mr. KELLEY. Then he got it from Mr. Bolling, which would be one step nearer the source of information. That would not be really sufficient, would it, to form an opinion upon?

Mr. MEEHAN. Well——

Mr. KELLEY. One might have that view, and it may be the correct view; I am not saying that it is not.

Mr. MEEHAN. It may be.

Mr. KELLEY. But I am just wondering if you really did apply yourself real diligently, with all the avenues that are open to you, to find out whether your opinion was well founded?

Mr. MEEHAN. Well, I can only have my opinion, Mr. Kelley. We had a good many other things besides the Bolling matter to look into.

Mr. KELLEY. Oh, yes, no doubt of that?

Mr. MEEHAN. And even if this allegation is true, I think some worse crooks——

Mr. KELLEY. Oh, yes.

Mr. MEEHAN. And other matters to go into——

Mr. KELLEY. It very often happens that way—that the least of the offending gets the hardest treatment.

Mr. MEEHAN. Yes.

Mr. KELLEY. And I presume you might be in a position to verify that, even still more than the committee.

Mr. MEEHAN. I believe that is true.

Mr. KELLEY. So you did not attempt to check up the question of the loans, to see how much they were, to Mr. Bolling?

Mr. MEEHAN. No.

Mr. KELLEY. And you do not know now whether it is the amount that Mr. Sands says, \$1,800, or not?

Mr. MEEHAN. I do not.

Mr. KELLEY. You heard Mr. Sands's testimony, that this was the method of handling this account: He credited it up to Mr. Bolling, and then the amounts paid out was in the nature of a loan?

Mr. MEEHAN. Yes, sir.

Mr. KELLEY. But charged against the proceeds of these notes?

Mr. MEEHAN. Yes, sir.

Mr. KELLEY. You did not ask Mr. Bolling how much the aggregate of the loans was?

Mr. MEEHAN. I do not recall.

Mr. KELLEY. Then, from anything that you might have obtained from Mr. Bolling, even, the charges of Mr. Sands—the statement of Mr. Sands—might be true, that the amounts that he did pay on this division were in the nature of loans, Mr. Bolling having admitted that he did receive loans?

Mr. MEEHAN. Yes; it is perfectly plausible that Sands may be telling the truth and Bolling a lie.

Mr. KELLEY. Well, Bolling told you the same thing, did he not?

Mr. MEEHAN. Well, no. Bolling told me—he denied that he ever had any talk or conversation with Sands about the getting of the Downey contract.

Mr. KELLEY. Oh, yes.

Mr. MEEHAN. And I think he told me at that time his relations were not extremely cordial or intimate with Mr. Sisler, and that he had known Sands for years, he built a house for him, and that Sands gave him a note for it, and the note was still in the bank there, I think, with something over \$1,000 due, and that Sands had from time to time, since he was in the Shipping Board and before that, made payments on the notes, and during the period of years that he had known Sands he had from time to time borrowed money from Sands; that he had always done business, or for a number of years, with that bank.

Mr. KELLEY. You did not inquire from Mr. Bolling whether these loans had been paid back?

Mr. MEEHAN. Yes; Bolling—I imagine that Bolling said there was still an outstanding account between them, I think something over \$1,000, due by Sands, which I think Sands admits; that is, to the extent of \$900.

Mr. KELLEY. Well, that is a note.

The CHAIRMAN. That is on the house.

Mr. MEEHAN. That is on the house matter; yes.

Mr. KELLEY. That is not due now until next December.

Mr. MEEHAN. For instance, I imagine that if Bolling borrowed \$500, when a payment of like amount came due on the note it would be a natural thing, if Bolling did not pay it back, to credit it on the note. I don't know.

Mr. KELLEY. Did Bolling tell you what you are saying now?

Mr. MEEHAN. No.

Mr. KELLEY. You are just saying what might have happened?

Mr. MEEHAN. Yes; but I say that he borrowed money at various times.

Mr. KELLEY. As to the Secretary of the Shipping Board, Mr. Sisler, when did he leave the Shipping Board?

Mr. MEEHAN. About a year before I went to Washington.

Mr. KELLEY. What was that date?

Mr. MEEHAN. I went to Washington in February, 1920, and I think he left there in the spring of 1919.

Mr. KELLEY. Yes. Now, of course, as an investigator of the situation, you have thoroughly looked up all the papers in the department bearing in any way upon Mr. Sisler's leaving the board and leaving the service of the board?

Mr. MEEHAN. No; I have not.

Mr. KELLEY. You do not know whether he was discharged or not?

Mr. MEEHAN. No.

Mr. KELLEY. Well, I should have thought you would have done that, Mr. Meehan.

Mr. MEEHAN. Well, the same thing applies to that as to what I told you applied to Bolling. I had no information——

Mr. KELLEY. You do not know but what he was discharged?

Mr. MEEHAN. I had no information alleging anything against these men except from men that I considered to be crooks, and I thought I had gone as far as a man was justified in going.

Mr. KELLEY. But I say, you do not know but what you could have found in the records of the Shipping Board evidence that he had been discharged, maybe for some offense; you never looked up to see?

Mr. MEEHAN. I rather think if he was I would have heard it.

Mr. KELLEY. But you did not look it up to see?

Mr. MEEHAN. No; he was out a long time before I got there.

Mr. KELLEY. And do you know whether he resigned voluntarily or not?

Mr. MEEHAN. I do not; no, sir.

Mr. KELLEY. Never inquired into that?

Mr. MEEHAN. No, sir.

Mr. KELLEY. Well, as to Mr. Sisler you did not make any investigation at all?

Mr. MEEHAN. No, sir.

Mr. KELLEY. I was just trying to get into the record who signed this report that I read from. This is a copy, and it does not bear the signature; but the initials in the corner are "A. C. W.," and the title is "Assistant district officer."

Mr. MEEHAN. That was Mr. A. C. Wilkie.

The CHAIRMAN. Mr. Meehan, do I understand you to say that Judge Payne seemed to be satisfied that no further——

Mr. MEEHAN. No; I said that I rather thought Judge Payne had been advised of this, but I talked with Gillen about it, and with Admiral Benson.

The CHAIRMAN. Well, I am asking about Judge Payne now. Did you ever talk with him about it?

Mr. MEEHAN. I am not sure, Mr. Chairman.

The CHAIRMAN. Did you talk with Mr. Gillen while he was Judge Payne's assistant?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. And did you get the impression, from what Mr. Gillen said, that there was no necessity of making any further investigation?

Mr. MEEHAN. Well, I would not want to give the idea that Mr. Gillen would have me lay off the investigation, because Mr. Gillen is not that type; but I got the impression——

The CHAIRMAN. Well, when you talked to him, what was it?

Mr. MEEHAN. I got the impression that Gillen was satisfied that Bolling was straight.

The CHAIRMAN. Well, now, did you get any suggestion or directions from Mr. Gillen not to proceed with the investigation?

Mr. MEEHAN. No, sir; I did not.

The CHAIRMAN. But you gained the impression from Mr. Gillen that Mr. Bolling was all right, so far as this transaction went?

Mr. MEEHAN. Yes; that he had gone over it.

The CHAIRMAN. Nothing to it?

Mr. MEEHAN. Yes.

The CHAIRMAN. That he had gone over the Department of Justice reports?

Mr. MEEHAN. No; he did not say that; that he had gone into the matter.

The CHAIRMAN. He had gone into it?

Mr. MEEHAN. And believed Bolling was straight.

The CHAIRMAN. Bolling was all right?

Mr. MEEHAN. But I would like to have it appear on the record, if there is any criticism on account of the failure, any failure to investigate this thing as the committee feels it should have been investigated, it is not because of any direction or intimation or suggestion that came from anybody, high up or anywhere, that we lay off the matter, because we never had that.

The CHAIRMAN. All right, that is very magnanimous of you Mr. Meehan; but we will ask the questions and make up our conclusions, of course.

Mr. MEEHAN. Well, I wanted that to go in the record.

The CHAIRMAN. Mr. Gillen had a talk with you about this story, about the investigation that was made, did he not?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. And he knew that the Department of Justice had investigated it, did he not?

Mr. MEEHAN. He had been informed; yes, sir.

The CHAIRMAN. Now, did Admiral Benson know that the Department of Justice had investigated it?

Mr. MEEHAN. He had been informed of it; yes, sir.

The CHAIRMAN. By whom?

Mr. MEEHAN. I do not know, but——

The CHAIRMAN. Did you tell him so?

Mr. MEEHAN. No; he knew it.

The CHAIRMAN. Well, he told you that he had information?

Mr. MEEHAN. Yes.

The CHAIRMAN. Now, did he suggest that no further investigation was necessary?

Mr. MEEHAN. No, sir.

The CHAIRMAN. Did he state to you that he was satisfied that Mr. Bolling was all right?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. Now, when you first looked into this matter Mr. Fuller had not been indicted, had he?

Mr. MEEHAN. Oh, yes. I never looked into it at all until March, 1920, and I believe Fuller——

The CHAIRMAN. Never?

Mr. MEEHAN. No; I did not go to Washington until it was either February or March, 1920, and I believe Fuller was convicted in 1919. I never heard of Fuller, as I testified here, until the matter came to my attention of McCann's preparations to print this story on Bolling on information furnished by a man named Fuller. I had never heard Fuller's name mentioned up to that time.

The CHAIRMAN. Oh, I see. Well, now, at the time these transactions were alleged to have taken place neither Mr. Fuller nor Mr. Sands had been indicted, had they?

Mr. MEEHAN. No, sir.

The CHAIRMAN. Have you had any talk with Commander Clements about this matter?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. Was there any suggestion on his part that further investigation was unnecessary?

Mr. MEEHAN. No; I do not think anything Commander Clements said would be interpreted that way.

The CHAIRMAN. Have you had any talk with Mr. Bailey?

Mr. MEEHAN. No; we do not take matters up with Mr. Bailey. We go direct to the chairman or the executive assistant to the chairman.

The CHAIRMAN. You have not talked with Mr. Bailey about this matter?

Mr. MEEHAN. I do not think I have. If I have ever talked to Bailey about it, it would only be incidentally and because Bailey spoke to me about it; but we never make reports to Mr. Bailey on these investigations.

The CHAIRMAN. Well, have you had any talk with Mr. Bolling about this matter since the committee began its inquiry?

Mr. MEEHAN. No, sir.

The CHAIRMAN. Have you had any talk with Mr. Bolling about any matter since the committee began this inquiry?

Mr. MEEHAN. No, sir; I have not seen Mr. Bolling.

The CHAIRMAN. Did you have a talk over the telephone with some Shipping Board official recently from Washington and give out an interview?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. With whom?

Mr. MEEHAN. Col. Goff.

The CHAIRMAN. Col. Goff?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. Did you understand you were talking for publication?

Mr. MEEHAN. Well, I talked five or six times with Washington, and I knew that the colonel was going to get out a statement, or that a statement was going to be given out in Washington, and he wanted information from me because I was at this end of the line; and he said he was getting some information from Mr. Burke. And so I told him in a general way what I had done on it and the impressions that I gained, etc.

The CHAIRMAN. Did you understand that you were talking for publication?

Mr. MEEHAN. Yes, sir; that it would be used in a statement to be given out in Washington.

The CHAIRMAN. Now, did you state that Mr. Fisher had made a false statement?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. What do you consider as false that Mr. Fisher has stated?

Mr. MEEHAN. Well, in Mr. Fisher's—in that book, that was—the part you quoted the other day, you asked Mr. Fisher what he had to support that. Mr. Fisher first referred to the *Lake Elkwood* case as a matter that had not been investigated. Mr. Fisher has had access to our files——

The CHAIRMAN (interposing). I am asking you now what in Mr. Fisher's—what Mr. Fisher has said that was false?

Mr. MEEHAN. That statement was not true—yes—that we had not investigated the *Lake Elkwood* case and that we had not investigated this matter at all.

The CHAIRMAN. Then, with reference to this case, you want the committee to understand that you have investigated the Bolling matter, do you?

Mr. MEEHAN. I have investigated it to some extent; yes.

The CHAIRMAN. Oh, to some extent?

Mr. MEEHAN. Yes, sir; and to an extent that satisfied me and Mr. Fisher, according to a statement Mr. Fisher made to Mr. Tweedale and also made to Admiral Benson and Mr. Clements in my presence.

The CHAIRMAN. Yes.

Mr. MEEHAN. That he was satisfied that Bolling was straight, and I felt that Mr. Fisher, in bringing this matter up, should have showed that much and not given the impression, as I felt that his testimony was intended to, that we had not investigated Bolling because of Bolling's connections.

The CHAIRMAN. Did you hear Mr. Fisher make any statement to this committee that this investigation had not been made by the Shipping Board because Mr. Bolling was a brother-in-law of the President?

Mr. MEEHAN. No, sir.

The CHAIRMAN. Did you hear him make any statement that carried that implication?

Mr. MEEHAN. I said no; he did not make the statement nor did I put it that way.

The CHAIRMAN. Now, this transaction took place from March to August or September, 1918?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. Do you know of a single investigation that was made by the Shipping Board prior to 1920—by the Shipping Board, I mean?

Mr. MEEHAN. No; I do not.

The CHAIRMAN. Do you know of any investigation that was made by the Department of Justice prior to the fall of 1919?

Mr. MEEHAN. I do not know the date of the Department of Justice's investigation, but I think it was the latter part of 1918 or 1919, or early part of 1919.

The CHAIRMAN. Did the Department of Justice investigate this?

Mr. MEEHAN. Yes, sir, I think so; that is the statement made by Mr. Houston Thompson.

The CHAIRMAN. He is now a member of the Federal Trade Commission?

Mr. MEEHAN. Federal Trade Commission; yes, sir.

The CHAIRMAN. Have you got a copy of his report in your files?

Mr. MEEHAN. No, sir.

The CHAIRMAN. Where is his report?

Mr. MEEHAN. In the Department of Justice, I imagine.

The CHAIRMAN. Did you not say he reported to the Shipping Board?

Mr. MEEHAN. No. The report was signed by Mr. Burke. Mr. Burke interviewed Mr. Thompson, and went over to the Department of Justice and made a report of the results of the investigation based upon the statements made to him by Mr. Thompson.

The CHAIRMAN. Mr. Meehan, it is a fact, is it not, that the investigation you made in this case stopped with what the Department of Justice had found and with your interview with Mr. Tweedale and Mr. Bolling?

Mr. MEEHAN. And the admiral; yes, sir.

The CHAIRMAN. The admiral was not concerned in this, was he?

Mr. MEEHAN. I mean, I reported to the admiral all the same.

The CHAIRMAN. Well, it stopped then.

Mr. MEEHAN. I told you it was not closed, because it has only been recently that I tried to get this additional information out of this man Beckerly.

The CHAIRMAN. And Mr. Beckerly, so far as you know, has not any more to do with this transaction than the man in the moon, has he?

Mr. MEEHAN. Mr. Beckerly is very friendly with Mr. Bolling.

The CHAIRMAN. Yes.

Mr. MEEHAN. And with Mr. Robertson.

The CHAIRMAN. And Mr. Bolling has probably got a dozen other men who are very friendly with him, but they do not know anything about this transaction, and Beckerly does not, does he?

Mr. MEEHAN. I do not know.

The CHAIRMAN. He has never given you any information about it, has he?

Mr. MEEHAN. I got the information from Beckerly that they trusted him to the extent, Bolling's own partner, Robertson, of turning over the assets of his brokerage concern to him, that he seen Beckerly in Bolling's office a number of times, and Beckerly has been to me to find out what I had on him, and I thought that if Bolling were wrong that his partner, Robertson, might know it; and even if his partner Robertson did know it, that Beckerly might be able to get the information and give it to me.

The CHAIRMAN. Do you consider Mr. Beckerly in the same class with these other gentlemen?

Mr. MEEHAN. No, sir.

The CHAIRMAN. You do not?

Mr. MEEHAN. No, sir.

The CHAIRMAN. But these things you are now stating are conclusions that you reached in figuring out how you were going to get at this thing?

Mr. MEEHAN. You have to do that in all these cases.

The CHAIRMAN. Sir?

Mr. MEEHAN. You have to do that in all these cases.

The CHAIRMAN. You have?

Mr. MEEHAN. Yes.

The CHAIRMAN. Inquire as to a man that does not know anything about the transaction at all?

Mr. MEEHAN. He is very close to Mr. Bolling and close to Mr. Robertson.

The CHAIRMAN. That is all right. Now, what about it? Did he know anything about this transaction?

Mr. MEEHAN. I believe he does, perhaps; but I have not got anything out of him yet.

The CHAIRMAN. You think Mr. Beckerly knows something about it?

Mr. MEEHAN. I would not be surprised if he does.

The CHAIRMAN. Do you know where he lives?

Mr. MEEHAN. He is connected now with the White Haven Shipbuilding Co., I believe.

The CHAIRMAN. Where is that?

Mr. MEEHAN. Somewhere in Maryland; I have forgotten the address.

The CHAIRMAN. What are his initials?

Mr. MEEHAN. George W., I believe.

The CHAIRMAN. George W. Beckerly?

Mr. MEEHAN. Mr. Fisher has his name.

The CHAIRMAN. You say the Lake Elkwood matter was investigated by the Shipping Board?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. By whom?

Mr. MEEHAN. Several men in our department.

The CHAIRMAN. When?

Mr. MEEHAN. Immediately after we got the first report from Buenos Aires through the State Department; and the matter was called to Admiral Benson's attention and Mr. Foley's attention, and we had every reason up to that time to regard Mr. Haeberle, the American consul there, as a high-type man. Mr. Haeberle has assisted me in several investigations, but we have had various complaints of this kind down there. And very shortly thereafter Capt. Carden, of the United States Coast Survey service, was sent down to represent the Shipping Board, and other representatives were sent to Rio and all those ports down there; and I think the admiral has taken all steps possible to correct the things complained of by Capt. Chambliss, if Capt. Chambliss was telling the truth about it, although the captain's story varies considerably from the story that came to the State Department.

The CHAIRMAN. Do you know that the State Department made an investigation of the conditions down there in Rio and practically substantiated every charge that was made as to the collusion and mulcting of the Shipping Board for repairs and supplies?

Mr. MEEHAN. It did not substantiate Capt. Chambliss's story. There is quite a divergence there between Haeberle, the consul, and Chambliss on that.

The CHAIRMAN. Did it substantiate the story of Capt. Elliott, who was put into jail for five days?

Mr. MEEHAN. I do not recall, offhand, that story.

The CHAIRMAN. Did the Shipping Board investigate that?

Mr. MEEHAN. I do not recall that, Mr. Walsh.

The CHAIRMAN. No.

Mr. MEEHAN. We have investigated a good many of those things down there, and I believe we are straightening it out. I do not think anybody denies we were just pretty generally robbed down there for many, many months.

The CHAIRMAN. Did you make some other statements with reference to this investigation to Col. Goff?

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. What did you say?

Mr. MEEHAN. Well, I said, among other things, that one of the reasons that I had not gone any further on this thing was because of the connection of John Schwarzkopf with him, and that Schwarzkopf—I explained to the colonel when I first met Schwarzkopf, and he came into my office in Washington and represented himself as

gathering information for a committee—a congressional investigating committee; and later I ascertained that Mr. Schwarzkopf was connected in Washington with Ludwig Martens, the Russian soviet ambassador, and that I had found that not only in the Shipping Board inquiry, but in connection with various other matters in which attacks have come through the press on various other matters in which ernment, that Mr. Schwarzkopf usually appears, and that at the time that he and McCann came there McCann was interested in this matter because of a suit that was brought against his paper, and that I thought that on account of Schwarzkopf's general activities that there might be something sinister about this entire proposition.

The CHAIRMAN. What do you mean by "this entire proposition"—the Sands matter and Bolling?

Mr. MEEHAN. Yes; and Schwarzkopf's connection with it.

The CHAIRMAN. You made no statement that bolshevist propaganda was responsible for the facts which were brought out by this committee?

Mr. MEEHAN. Oh, no; that is not in the statement. But I said I believed that they were taking advantage of it.

The CHAIRMAN. That who were taking advantage of it?

Mr. MEEHAN. That the bolshevists were taking advantage of it. For instance, if a matter involving the President's brother-in-law would be meat for these men. I do not doubt that it is a matter that is already eagerly grasped by them.

The CHAIRMAN. And, for that reason, do you not believe, Mr. Meehan, that there should be some determination by somebody, somewhere, with utmost publicity given to it, as to what the actual facts are with regard to the transaction?

Mr. MEEHAN. Yes, sir; I think I told you——

The CHAIRMAN. Yes, sir.

Mr. MEEHAN (continuing). I would like to say here that I advised you the other day that I thought it was the proper thing to hear Mr. Sands; that if Bolling were guilty, I, for one, was in favor of giving Sands immunity in order to get a man like Bolling, who would stoop to a thing like that, and I feel that way to-day.

The CHAIRMAN. And that was in a conference had in a corner of a room with you and Mr. Fisher?

Mr. MEEHAN. Yes, sir; and I would like to say, Mr. Walsh, that while I did not like Mr. Schwarzkopf's—a great many of his activities, I do not want to do him an injustice. I understand he is going to testify, and he can explain better what his relations with Mr. Martens is; but he came to me as a representative of a congressional committee, and attempted to get files out of our office.

The CHAIRMAN. This committee?

Mr. MEEHAN. When I asked him point blank if it was this committee, he was not very definite about it, and finally it looked as if it might be anything between your committee and the Republican national committee. And finally I asked him what connection he had with Mr. Hearst. Schwarzkopf professes to be a man who is interested, in addition to his relations with Ludwig Martens, a good Government in this country, and I am, too; and while I think it is well to watch men that are hobnobbing too closely with these men like Martens, I would not say anything or do anything that would

for one instant deter the committee in going to the very limit in showing up any men of Bolling's type, and even higher than that, because if men of that kind are guilty they are the ones who are responsible for bolshevism in the country, and it has got to be cleared up.

The CHAIRMAN. You have been connected with this department and doing work of this character long enough so that, in the language of the street, you are "from Missouri." When a charge is made, you want the facts before you make a finding.

Mr. MEEHAN. Yes, sir.

The CHAIRMAN. And when you find facts pointing to a certain conclusion, before you are satisfied the charge is ill founded, you want a pretty substantial preponderance of the evidence shown to you before you come to a different conclusion?

Mr. MEEHAN. Yes, sir. The way I felt about this matter the other day was, that I think Alfred McCann will publish most anything of that kind that he gets in his hands if he is nearly within the law. I think Mr. McCann was very anxious to publish that because of this pending Downey suit, and I felt that he knew, and Mr. Fisher, too, that it was quite a stab at the reputation of a man who generally was respected in the country, and a stab, almost, at the President himself, based on a proposition which would not have any standing in a court; and I thought it was a matter that ought to be further investigated quietly, in order to get some corroborated evidence.

The CHAIRMAN. You feel that perhaps the inquiry which this committee has undertaken has precluded the ascertainment of the real facts in the case?

Mr. MEEHAN. No; I do not.

The CHAIRMAN. You said "quietly." I did not know but what—

Mr. MEEHAN. Yes; that is the way I felt. But since the matter has come out and Mr. Bolling says he wants an investigation, and since it has come out I have rather changed my opinion, and I think you will be able to either disprove it or establish the fact.

The CHAIRMAN. You have given your statement as to what this payment might have been for. I want, at the risk of repetition, because I think Mr. Kelley propounded a similar inquiry, to ask this: Assuming that there was no question as to the financial standing of the Downey Shipbuilding Corporation, and that everything was satisfactory as far as the Shipping Board went with them, the reports they had got; assuming they had already had a large contract for steel cargo ships, and assuming that there was no need to camouflage to the extent of \$100,000 bank standing, what is your judgment as to why this \$40,000 was paid through notes to Tucker Sands? Will you give the committee the benefit of your judgment on that, your opinion?

Mr. MEEHAN. Well, I have told you, Mr. Chairman, what I was led to believe by information that I had obtained.

The CHAIRMAN. I am assuming that that is all wiped aside; that that is not so.

Mr. MEEHAN. In view of the present proceedings. I would prefer to wait to pass judgment.

The CHAIRMAN. Very well.

Mr. KELLEY. Just one question, Mr. Meehan: I do not know that I ought to ask you this question, but, in view of your opinion of Mr. Fuller—

Mr. MEEHAN (interposing). I never saw Mr. Fuller until to-day.

Mr. KELLEY. I judge your opinion of him was not good——

Mr. MEEHAN (interposing). Based only on the records of the court and my talk with this man in Washington the president of the Washington Hotel Co.——

Mr. KELLEY (continuing). How do you explain his reemployment by the Department of Justice after conviction by that same department?

Mr. MEEHAN. I did not know that he was reemployed.

Mr. KELLEY. Did you not know that four months after he was convicted that he went back and worked for the Department of Justice?

Mr. MEEHAN. I did not know that until two or three days ago.

Mr. KELLEY. Knowing it now, what is your opinion? Does that change your opinion of Mr. Fuller?

Mr. MEEHAN. My attitude on that would be just like it was expressed to you and the chairman the other day about Mr. Sands, giving him immunity: If you can get bigger crooks by using Mr. Fuller, why, I say, "get them and turn him loose." That is what I would do. It has been done a good deal, and I think it is the right way to do. I hate to go after these little fellows anyway in this case.

I would like to say here that Mr. Fuller has an appeal, and while my opinion is that Mr. Fuller was a crook was based on the fact that he was convicted of a crooked deal in a court in the District of Columbia, and I had no reason to believe but what the conviction was a proper one, he is out on appeal and he is entitled to——

Mr. KELLEY (interposing). You do not know from investigation whether or not the Department of Justice possibly feels that there is a very great likelihood of a reversal in the higher courts?

Mr. MEEHAN. I do not know that.

Mr. KELLEY. You did not inquire into that to determine why they reemployed him, because you did not know that he was reemployed.

Mr. MEEHAN. I did not know it.

Mr. KELLEY. But if you had been looking him up very carefully you would have ascertained that fact?

Mr. MEEHAN. He was employed, I believe he said, in July.

Mr. KELLEY. Well, for several months after he was convicted.

Mr. MEEHAN. I investigated Mr. Fuller, I think, in April or May, and, as I said, in addition to this indictment I went to a man in Washington that I have every confidence in, Mr. Robert Downs, of the Washington Hotel.

Mr. KELLEY. Still, they might have had some business trouble which would have led to an adverse report. You often find that among business men who have trouble in business.

Mr. MEEHAN. That is true.

Mr. KELLEY. Did you go to the Department of Justice to find out he was taken back because——

Mr. MEEHAN. He had not been taken back at that time. I believe he said he was employed in July.

Mr. KELLEY. July, 1920?

Mr. MEEHAN. 1920—that was my understanding. My investigation was made in April or May, 1920.

Mr. KELLEY. You have not made any investigation of his case lately?

Mr. MEEHAN. No, sir.

Mr. KELLEY. And when was he convicted, do you know?

Mr. MEEHAN. I believe in December, 1918.

Mr. KELLEY. Did you inquire of Mr. Downs whether or not he had had some financial difficulties or disagreements with Mr. Fuller?

Mr. MEEHAN. That was what I got from Downs. Downs told me that Fuller was a director in his bank, representing P. D. Armour, who had invested \$100,000 in the construction of that hotel.

Mr. KELLEY. What bank is this, Mr. Meehan, that you are speaking of? You say Mr. Fuller was a director in his bank?

Mr. MEEHAN. I mean hotel.

Mr. KELLEY. Oh, yes.

Mr. MEEHAN. And that Fuller came to him and wanted him to discount a note of P. D. Armour, jr., for \$10,000. He discounted it, and the note came due, and much to his surprise young Armour did not take it up and Fuller, as I recall it, paid \$2,000 on it and extended it, and later it became due again, and, I believe, was renewed, and Downs told me that Fuller explained that he had to go down to some Army camp in Virginia, or some place near Washington, to see young Armour and get the renewed note, and the following morning after telling that he showed up with the renewal and that he, Downs, had later ascertained that it was an impossibility for Fuller to have seen P. D. Armour, because he found out from him that morning that he was not there where Fuller claimed he was, and he got suspicious and took the matter up with his bank.

When the note came due again he said he had to pay it, and he lost \$8,000 on it. He took the matter up with P. D. Armour, and Armour denounced it as a forgery and refused to pay it. Young Phil Armour so denounced it, and Downs said at that time he found there were several of those alleged Armour notes in banks in Washington, and I believe it was Downs that called the matter to the attention of the Comptroller of the Currency.

Mr. KELLEY. But just who forged these notes has not yet appeared?

Mr. MEEHAN. Not that note. I believe they tried Mr. Fuller on a charge of forging and uttering forged instruments in Washington, but the chairman explained that he was acquitted on the forgery charge.

Mr. KELLEY. And found guilty only of uttering a forged note?

Mr. MEEHAN. Yes.

Mr. KELLEY. Has the information which has come to you through this hearing modified your attitude to such an extent that you feel you ought to inquire into the Fuller matter more to determine whether or not his testimony would be worthy of credence?

Mr. MEEHAN. Yes; in view of the fact that the Department of Justice saw fit to reemploy him, and it was the Department of Justice that prosecuted him, I would be inclined to believe that they had reason for doing that.

Mr. KELLEY. You would want to know what that was?

Mr. MEEHAN. Yes.

Mr. KELLEY. You do not know now?

Mr. MEEHAN. No; I do not.

The CHAIRMAN. The committee will now suspend until 9.30 o'clock to-morrow morning.

(Whereupon, at 5.57 o'clock p. m., the committee adjourned until to-morrow, Saturday, November 27, 1920, at 9.30 o'clock a. m.)

SELECT COMMITTEE ON UNITED STATES
SHIPPING BOARD OPERATIONS,
HOUSE OF REPRESENTATIVES,
New York, November 27, 1920.

The committee met in room 401, United States post-office building, at 9:45 o'clock a. m., Hon. Joseph Walsh (chairman) presiding.
Present also: Hon. Patrick H. Kelley, member of committee.

TESTIMONY OF MR. HAROLD F. HANES.

The witness was duly sworn by the chairman.

The CHAIRMAN. What is your name?

Mr. HANES. Harold F. Hanes.

The CHAIRMAN. What is your business or occupation?

Mr. HANES. I am employed by the Emergency Fleet Corporation as a junior examiner.

The CHAIRMAN. Where?

Mr. HANES. At the present time in New York.

The CHAIRMAN. In what department?

Mr. HANES. The general comptroller.

The CHAIRMAN. Who is the general comptroller?

Mr. HANES. Mr. A. Tweedale.

The CHAIRMAN. Do you report to him directly?

Mr. HANES. Yes, sir.

The CHAIRMAN. And of what do your duties consist?

Mr. HANES. At the present time I have charge of the investigation of personnel in the repair cost audit bureau in New York, particularly with reference to the time and material checking.

The CHAIRMAN. That is, you are in charge of the repair cost audit bureau?

Mr. HANES. I am in charge of the checkers, the time and material checkers.

The CHAIRMAN. Do you know anything with reference to the commercial rates here in New York as compared with previous cost-plus rates?

Mr. HANES. I have information from auditors in the repair cost audit bureau, with whom I have talked, that the commercial rates at present in vogue in the port of New York are higher than the cost-plus rates. For instance, a machinist who was paid by the repair company 80 cents per hour, is paid for by the Shipping Board at \$1.37 or \$1.375 per hour, that being greater than the 50 per cent over the cost plus.

The CHAIRMAN. Do you know whether that is confined to Shipping Board work or not?

Mr. HANES. I do not; no, sir.

The CHAIRMAN. It may be that repairs done on privately owned and operated ships are charged for at the same rates?

Mr. HANES. It may be; yes, sir.

The CHAIRMAN. And if it is, of course the Shipping Board are not being discriminated against?

Mr. HANES. No; if that is the case, why, they are not; no, sir.

The CHAIRMAN. Have you any instances in mind where that practice has prevailed?

Mr. HANES. The practice of charging \$1.375?

The CHAIRMAN. Yes.

Mr. HANES. It prevails in practically all the repair yards in the port of New York, I understand. I have information that it prevails in the case of Shewam & Co., Crane & Co., Morse & Co., the Atlantic Basin, Tietjen & Lang—practically all of the repair yards, in fact.

The CHAIRMAN. Do you have to go aboard ships?

Mr. HANES. Yes, sir.

The CHAIRMAN. How long have you been with the Shipping Board?

Mr. HANES. Since June 5, 1919.

The CHAIRMAN. And who is your superior officer here in New York?

Mr. HANES. At the present time I report to Mr. M. M. McLaughlin, auditor of repairs.

The CHAIRMAN. Do you know anything about overcharges?

Mr. HANES. In what sense, Mr. Chairman?

The CHAIRMAN. Well, have you seen a copy of this report that Mr. Fisher and Mr. Richardson made to the committee?

Mr. HANES. Yes, sir.

The CHAIRMAN. Will you turn to page 14, subparagraph (c), as to whether under the new agreement overcharges are common?

Mr. HANES. Recently, on board a tug, the name of which I can not recall, at Shewam & Co.'s yard, I saw about eight men endeavoring to work in a room which was about 4 by 4. This was the wireless room of the tug, and they were trying to do some carpenter work in there, and they were in each other's way; in fact, there were only about two of them that could work at one time. In addition to that, I have had information from Mr. Dalby—

The CHAIRMAN. Who is he?

Mr. HANES. He was previously a time checker in the port of Norfolk, and also was sending in confidential reports to the general comptroller as to the repair situation in that port.

The CHAIRMAN. What is he now?

Mr. HANES. He has left the Shipping Board. The information I have had is to the effect that he had seen instances, one instance anyway, where the Union Iron Works at Norfolk had 12 men hoisting ashes out of a hold; that is, 12 men were on the job, only three of them were working.

When I was at Norfolk, doing some investigation work down there, I saw a bill by the Burton Machine Works for \$47.95, which was for installing a hinge on a galley door of the Steamship *Lake Ontario*. I took the matter up with Mr. Blair, chief inspector of the construction and repair division in Norfolk, and he told me that the hinge itself was worth approximately 50 cents and that it should not have cost more than \$3 to install the hinge. What they had charged for was for the work of a machinist and helper, and they had taken a piece of rough steel and cut this hinge out instead of buying it at one of the hardware stores.

Mr. KELLEY. Is that the \$161 hinge we have heard about before?

The CHAIRMAN. That is another steamer. Do you know anything about charges for overtime upon the *Woyaca* at the Union Iron Works?

Mr. HANES. The steamship *Woyaca* was in the port of Norfolk approximately three months during the winter of 1919 and 1920. Practically the whole time she was in the port she was undergoing some kind of repairs. The work was let to the Union Iron Works on a time and material basis, with additional supplementary requisitions for repairs from time to time. One particular bill was a charge for, if I recall correctly, about 25 men which they had taken to the *Woyaca*, which was laying down in the harbor, on one Monday morning, starting to work at 7.30 a. m. They had not taken these men off until 7.30 a. m. the following Monday morning. In that time they had charged for eight hours per day straight time, and 15½ hours per day at double time, making a grand total of 39 hours per day for all of the men for the seven days.

I called in the secretary of the president of the Union Iron Works, and also the general manager, and they admitted to me, in the presence of witnesses, that they realized that it was impossible for these men to work seven days straight, working straight time at 23½ hours per day; that they knew that the men had slept on the job, and they realized that they had to sleep, but that they understood, from their dealings with the Shipping Board, that that was the custom in the port of Norfolk, to charge that way.

The CHAIRMAN. Well, was that paid for at that rate?

Mr. HANES. It had already been paid.

The CHAIRMAN. Do you know whether any refund was secured?

Mr. HANES. Not so far as I know.

The CHAIRMAN. Do you know anything about employees or officers of the Shipping Board receiving gifts, presents, bonuses, commissions, or bribes from firms that were doing work for the Shipping Board or the Emergency Fleet Corporation?

Mr. HANES. I heard Mr. C. L. Short, an officer and director of the Union Iron Works, in Norfolk, admit under examination by Mr. W. R. Morton, that he and the president of the Union Iron Works has presented five shares of stock, of a par value of \$500, to Mr. Lester George, at that time assistant chief inspector of the Emergency Fleet Corporation, at Norfolk.

The CHAIRMAN. Five shares of stock of what?

Mr. HANES. Of the Union Iron Works, in the company. Mr. Short contended that these five shares of stock were given to Mr. George in recognition of past services, and not with a thought of anything for the future. Mr. Short signed an affidavit to this effect, as did also the president of the company, they stating that they had discussed this matter previously and given these five shares of stock as a result of a conference.

I further heard Mr. J. Q. H. Smith, the president of the Virginia Iron Works, admit to Mr. Morton—

The CHAIRMAN. Is that at Norfolk, too?

Mr. HANES. Yes, sir; admit to Mr. Morton on examination that he had presented this same Mr. Lester George with a Waltham watch which had cost him approximately \$92 as a Christmas present. He, too, contended that this was in recognition for past favors. At the same time Mr. Smith admitted that he had given the resident auditor, at that time located in his plant, \$50 as a Christmas present. He had also presented two Emergency Fleet checkers, whose names I can not recall, with \$25 each as a Christmas present.

The CHAIRMAN. Do you know of anybody receiving anything by way of pay or compensation for assisting any concern to make up its bill or account?

Mr. HANES. An auditor, in Norfolk, employed by the Emergency Fleet Corporation, admitted to me, and signed an affidavit to that effect, that he had received, I think it was \$5, for assisting the Union Iron Works in making up a bill against the Emergency Fleet Corporation, which he had at that time expected to later audit, inasmuch as he was at that time auditing their bill. I, however, had Mr.—I can not recall his name—withdrawn from the audit of that bill.

The CHAIRMAN. Do you know anything about any persons having been attacked while performing their duties or having had iron dropped on them?

Mr. HANES. I had information from this same Mr. Dalby, formerly special agent and time and material checker at Norfolk, that several times after it became known in Norfolk that he was connected with the investigation then being made he had had pieces of steel bars, etc., dropped down in the hold of ships where he was working, and they had fallen pretty close to him.

The CHAIRMAN. Well, that is what he told you.

Mr. HANES. Yes, sir; that is on information and belief.

The CHAIRMAN. You did not investigate the instances to find out if they might have been accidents?

Mr. HANES. No, sir.

The CHAIRMAN. Of course, in constructing a ship there are a great many pieces of steel and other materials that are constantly dropping around in various places, are there not?

Mr. HANES. Well, to some extent when repairs are going on; yes, sir.

The CHAIRMAN. Yes, sir; and if a man happens to get in the vicinity of where they are being dropped, if he has not got his eyes open, he is liable to get hit?

Mr. HANES. Yes, sir.

The CHAIRMAN. You do not know whether there was anything deliberate about this or not?

Mr. HANES. No, sir; I can not say as to that.

The CHAIRMAN. Did Mr. Dalby say anything to you to the effect that he had information that it was deliberate or that he thought somebody was trying to get him out of the way?

Mr. HANES. I understood he felt that that was the reason these things fell so close to him. I do not think he knew.

The CHAIRMAN. Sir?

Mr. HANES. I understood that he thought that that was the purpose of it, but I do not think that he knew.

The CHAIRMAN. Did you know a Mr. Sherwood down there?

Mr. HANES. Yes, sir.

The CHAIRMAN. What was his attitude toward Shipping Board employees or officials?

Mr. HANES. In what way?

The CHAIRMAN. With reference to cooperating with them?

Mr. HANES. So long as I was in Norfolk—I was withdrawn from there before the investigation was completed—Mr. Sherwood gave me all the assistance he could.

The CHAIRMAN. Did Mr. Sherwood ever say anything to you with reference to dismissing or getting rid of any men in the department of investigation who were down there inspecting work?

Mr. HANES. Not that I recall; no, sir.

The CHAIRMAN. Do you know whether or not in the port of New York vessels are repaired and sailed upon their voyages before a copy of the requisition showing the work required to be done has been received in the office of the Shipping Board?

Mr. HANES. Since I have been here, the chief timekeepers at the different yards keep a record of the time the work is completed on the vessel and the time the requisitions for the work are received, and as a general average I should say that the vessels have been repaired and have sailed in at least 50 per cent of the time before the requisition is received.

The CHAIRMAN. Do I understand you that when a Shipping Board vessel is being repaired, there is a requisition made out?

Mr. HANES. Yes, sir.

The CHAIRMAN. And before that requisition is received at the Shipping Board office, the proper department——

Mr. HANES. No; at the yards, Mr. Chairman. You see, in each of the yards——

The CHAIRMAN. Before the requisition is received at the yards?

Mr. HANES. Yes, sir; in each of the yards at the port of New York that do Emergency Fleet work, we have a system of timekeepers, which is headed by a chief timekeeper for that yard. That time-keeping department located in the yard, but employees of the Emergency Fleet Corporation, is supposed to receive that requisition. Now, I say that in at least 50 per cent of the times the vessel has sailed before the chief checker in that yard where the work is going on receives the requisition.

The CHAIRMAN. Well, can he check the work up before he gets the requisition?

Mr. HANES. They endeavor to do so by getting copies of the work orders of the yard, but in that way we have to depend upon the integrity of the yard.

The CHAIRMAN. What is the reason for that, do you know?

Mr. HANES. No, sir; I do not.

The CHAIRMAN. You think in the other 50 per cent of the cases the requisitions are received in regular course, and the time and materials are properly checked up?

Mr. HANES. No, sir; I would not say that. I would not say in the other 50 per cent of the times the requisition is received before the work is started, but I will say that in the other 50 per cent of the times the requisition is received before the work is completed; in the other 50 per cent of times they are received at various stages of the repairs.

The CHAIRMAN. Have you made any examination or do you know of any examination having been made in New York, of the pay roll credits of the repair companies in order to determine the rate of pay which should be allowed to contractors?

Mr. HANES. Yes, sir.

The CHAIRMAN. When was that done?

Mr. HANES. The last instance I saw of that was in the Morse Dry Dock Co., about a week ago. The system in vogue there is for the

resident auditors or field auditors, as they call them in New York, to examine the time cards of the employees, which show the base rate of pay, in order to determine the rate of pay which should be paid by the Fleet Corporation. I understand that that is done in practically all of the repair yards in the port of New York.

The CHAIRMAN. So it is a general custom?

Mr. HANES. Yes, sir.

The CHAIRMAN. And it is not limited to Shipping Board work?

Mr. HANES. Well, that is, it is a general custom so far as Shipping Board work is concerned. What the commercial practice is I do not know.

The CHAIRMAN. What have you found with reference to supplemental bids or subsidiary companies taking contracts for part of the work which has been awarded to one concern?

Mr. HANES. As to supplemental bids, I had a long conversation with Mr. Blair, who was appointed chief inspector of the construction and repair department in Norfolk, some time in April, and he told me that the principal trouble he had with construction and repair work in the port of Norfolk was the letting of supplemental bids; that is, he found that his inspectors or the engineers aboard ships would not make a thorough survey of the ships in the first instance, but would send in only a partial requisition; that the ship would then be towed to a particular pier of the repair company or to a dry dock for repairs, the contract usually being let at a very low figure. After they got there it suddenly developed that more extensive repairs were necessary, and that in order to keep the vessel from being moved from one place to another and delayed, he very often had to let the contract for the supplemental work at an exorbitant figure.

The CHAIRMAN. Well, does that frequently happen, Mr. Hanes, that they make a survey of a ship, it may be a thorough survey, but after they get under way in making the repairs they find conditions which were not ascertained by the survey, or which possibly could not have been ascertained by the survey, which disclosed the necessity for much more extensive repairs?

Mr. HANES. Mr. Chairman, I am not sufficiently acquainted with engineering principles to say that. I can say that such appears to be the case, from the number of supplemental requisitions. I gathered, however, from Mr. Blair's conversation that he, as an engineer, felt that additional requisitions were too prevalent to be caused by necessary faults of not finding it in the original survey.

The CHAIRMAN. Was this confined to any one particular port?

Mr. HANES. What I had reference to was in the port of Norfolk. Mr. Blair only had charge of that port.

The CHAIRMAN. At Norfolk?

Mr. HANES. Yes.

The CHAIRMAN. Have you ascertained the prevalence of any such condition as that here in New York?

Mr. HANES. I have not talked to any engineers about it.

The CHAIRMAN. In the repair cost audit bureau you have not run across anything that leads you to think that that practice prevails here?

Mr. HANES. I have seen in the repair cost audit bureau in New York that it seems to be prevalent to issue supplemental requisitions.

Whether or not that is necessary, or whether or not the engineers in charge think that that is a result of fault in the initial survey or the result of necessary work, things that they could not find, I do not know.

The CHAIRMAN. Do you know of any instances where material has been taken off ships under repair or reconditioning and been disposed of and no account made to the Shipping Board?

Mr. HANES. While in the port of New York, during the investigation there, I received information to the effect that about 25 tons of brass and copper was stripped from an old German ship which was taken over at the outbreak of the war, and sold as junk by the contractor. That case was never gone into and thoroughly investigated, because the ship had sailed and it was impossible to get hold of the officers or any of the crew.

The CHAIRMAN. Well, did you see the contract?

Mr. HANES. Did I see the contract? No, sir.

The CHAIRMAN. You do not know whether it was part of the terms of the contract, that the contractor should be permitted to do that as part compensation?

Mr. HANES. No, sir; I do not.

The CHAIRMAN. So if that was one of the terms, there was nothing improper or unusual about that, was there?

Mr. HANES. Only that my information was to the effect that the contractor tore out good copper and brass pipe and brass and copper fittings, that it was not necessary to tear out, and installed in the place of them cast-iron fittings and steel fittings, and scrapped the copper and brass.

The CHAIRMAN. Have you ever investigated any instance of where an operating company is making a profit on coal furnished to a Shipping Board ship?

Mr. HANES. Yes, sir. Some time in February, 1920, I received information from Mr. Dunlop, assistant chief of the supply division in Washington, to the effect that a Mr. McGuire, in charge of bunker coal activities of the Fleet, had heard of an operating company in the port of Norfolk receiving a commission of 25 cents per ton on all coal which they purchased on account of the Fleet Corporation. I talked to Mr. McGuire about this matter, and he told me that his information had been received from the vice president of Harris, McGill & Co., whose name I can not recall.

However, I talked to this gentleman and he admitted that his company had been receiving from the West Virginia Coal Co. a commission of 25 cents per ton on all coal that they purchased on account of the fleet vessels, and that his company stood willing and ready to make a refund of this 25 cents per ton commission.

I went to Norfolk and had a statement made up from the books of Harris, McGill & Co., which showed that they had received in all, as commissions, approximately \$2,500, and the Fleet Corporation received a refund check for that amount from Harris, McGill & Co.

I started in to make an investigation of further coal activities of the Fleet in Norfolk and went into the firm of Robert Hasler & Co. in Norfolk. I started to go into the books, when Mr. Hasler told me that if I would tell him just what I wanted he would give me the information. I told him what I wanted, and he admitted to me that his

company, the same corporation, maintained a branch which was devoted to the purchase and sale of coal, which they contracted for yearly from the mines in West Virginia; that he brought this coal into Norfolk and put it in a pool; and that he had been in the habit of selling coal to Shipping Board ships or Emergency Fleet ships which he operated at a net profit of approximately 8 cents a ton.

I sent a statement of this matter to the general comptroller of the Shipping Board, who is Col. Abadie, for the attention of Mr. John K. Keenan, Col. Abadie's assistant, and received a reply that although the managing and operating agreement which Hasler & Co. had with the Emergency Fleet Corporation provided that Hasler & Co. should give the Fleet Corporation the benefit of all existing and future contracts, there was nothing they could do in this case and to discontinue the investigation.

The CHAIRMAN. How much did it involve?

Mr. HANES. I do not know.

The CHAIRMAN. How many ships did they operate?

Mr. HANES. I think approximately 18 or 20.

The CHAIRMAN. And they were furnishing coal for all those ships?

Mr. HANES. Well, I imagine they were—I do not know whether they were furnishing coal for all of them or not.

The CHAIRMAN. Do you know whether any of them were oil-burning ships or not?

Mr. HANES. No, sir; I do not know. I simply know that Mr. Hasler told me that he had made approximately 8 cents per ton net, and before I could receive instructions as to continuing on this matter—I did not feel it necessary to determine just how much it involved.

The CHAIRMAN. Do you know of any instance where the port steward of the Shipping Board has been in the supply business furnishing goods from his own firm to Shipping Board ships?

Mr. HANES. In February, 1920, I made an investigation of the Sparrows Point Stores Co. at Baltimore, Md.; and in a conversation had with Mr. Henry Clay Walman, at that time manager of the company, he told me that a port steward in the port of Baltimore had been set up in an office building across the street from his company by the steamship company with which the port steward was employed; that this port steward was buying supplies from the Sparrows Point Stores Co. and having them billed to himself, and that he was re-billing them to the steamship company on account of the Emergency Fleet Corporation at about 50 per cent extra profit. Mr. Walman mentioned the name of the steamship company, and at the time the conversation took place there was no one present but the two of us.

The CHAIRMAN. Well, did you make any investigation of it further than that?

Mr. HANES. No, sir.

The CHAIRMAN. Why not?

Mr. HANES. At that time I was instructed to investigate the Sparrows Point Stores Co., and my instructions did not cover anything else.

The CHAIRMAN. Did you investigate the Sparrows Point Stores Co.?

Mr. HANES. Yes, sir.

The CHAIRMAN. Did you find out where they were selling any goods to a port steward?

Mr. HANES. No, sir.

The CHAIRMAN. Didn't find anything on their books?

Mr. HANES. No, sir; I am not an accountant, and I did not go into the books very carefully.

The CHAIRMAN. What investigation were you making of the Sparrows Point Stores Co.?

Mr. HANES. I was looking for overcharges and excess charges.

The CHAIRMAN. Did you find any?

Mr. HANES. Yes, sir; that is, I did not personally find them, but the auditors whom I had employed on the books reported to me that they had discovered them.

The CHAIRMAN. Was any refund made?

Mr. HANES. I understood that there was later; I don't know just how much.

The CHAIRMAN. Do you know how general the practice is here in New York for repairs to be done upon the time and material basis? How many ships?

Mr. HANES. Recently there were 51 ships in the port of New York belonging to the Fleet Corporation, undergoing repairs; of that number—

The CHAIRMAN. At one time?

Mr. HANES. Yes, sir.

The CHAIRMAN. Fifty-one?

Mr. HANES. Fifty-two.

The CHAIRMAN. Fifty-two?

Mr. HANES. Yes; at that time, I believe on information which I received, there were 31 time and material jobs going on on those ships.

The CHAIRMAN. Will you just explain what this "time-and-material-job" agreement is?

Mr. HANES. In the port of New York and elsewhere, when a contract or repair company desires to do commercial or time and material work for the Shipping Board they file a schedule of rates showing the amount per hour which they will charge for the different classifications of labor. If that rate is approved this particular repair company is put on the approved list of the Emergency Fleet Corporation. When a vessel comes into the port of New York needing repairs, and a requisition is made up and issued to the repair company which the officials or engineers feel is capable of doing the class of work called for, they then start to work on this requisition and make the repairs and bill the Shipping Board at so much per hour for the time and material expended in accordance with the rates which they have previously filed.

The CHAIRMAN. Well, now, you say there were 31 of those on that basis?

Mr. HANES. Yes, sir.

The CHAIRMAN. Out of 52?

Mr. HANES. Yes.

The CHAIRMAN. What were the other contracts, the other 21?

Mr. HANES. Some of them were lump-sum contracts, and some competitive bids.

The CHAIRMAN. Do you know how many ships operated out of the port of New York?

Mr. HANES. No, sir; I do not.

The CHAIRMAN. When you investigated this Sparrows Point Stores Co. you say you found some excess charges or overcharges?

Mr. HANES. Yes, sir.

The CHAIRMAN. What were they?

Mr. HANES. There were a number of them. One in particular the auditors working on the books reported to me, that they had discovered that the Sparrows Point Stores Co. had been charging the Emergency Fleet Corporation for beef hinds for which they paid 18 cents——

The CHAIRMAN. For what?

Mr. HANES. Beef hinds—hindquarters.

The CHAIRMAN. Oh, hindquarters?

Mr. HANES. Yes. The market price of which was approximately 18 cents and as a matter of fact, that they had been delivering to the ship a great many beef fronts of which the market price was about 11 cents; further, that deliveries in this particular case which I have been referring to was about 1,000 pounds short.

The CHAIRMAN. What were they charging for these beef fores?

Mr. HANES. I think about 24 cents a pound.

The CHAIRMAN. And the market price was 11 cents?

Mr. HANES. That is the wholesale price. In other words, when they bought beef fores they paid Swift & Co. or whatever wholesaler they purchased it from, 11 cents, whereas had they purchased beef hinds they would have had to pay the wholesaler 18 cents.

The CHAIRMAN. Do you know anything about any commission being paid by any concern to a captain by any company in Portland, Me.?

Mr. HANES. During the fall of 1919 and the spring of 1920 I worked in cooperation with an examiner of the Federal Trade Commission, who was examining the various ship chandlery concerns on the Atlantic coast in order to determine how much commission they had paid to captains and stewards of ships. This examiner and the records of the Federal Trade Commission show that the Flitner-Atwood Co. of Portland, Me.—that is, they have a purchasing office in Portland, but their main office is in Boston—had paid \$1,000 commission money among others to the captain of a vessel.

The CHAIRMAN. What was that a commission on?

Mr. HANES. That was a commission on a \$4,000 order, or approximately \$4,000.

The CHAIRMAN. For what?

Mr. HANES. For ship chandlery, ship supplies, etc.

The CHAIRMAN. Do you know whether the Federal Trade Commission has a list of the ship chandlery concerns who have paid commissions?

Mr. HANES. I have seen a list of the Federal Trade Commission showing commissions which have been paid by firms which they have investigated; that is, quite a number of them.

The CHAIRMAN. Do you know how many?

Mr. HANES. Well, I should say approximately 80 or 100.

The CHAIRMAN. Do you know whether there was any refund in this case?

Mr. HANES. So far as I know there was not.

The CHAIRMAN. You are quite sure that that was \$1,000 commission paid to the captain on an order of approximately of \$4,000?

Mr. HANES. To the best of my knowledge that was as shown by the records of the Federal Trade Commission.

The CHAIRMAN. And what was the material furnished?

Mr. HANES. Ship supplies.

The CHAIRMAN. What kind of supplies?

Mr. HANES. I do not know.

The CHAIRMAN. Did not the records of the Federal Trade Commission show the kind of supplies?

Mr. HANES. No, sir.

The CHAIRMAN. Well, then, how do you know that there was anything made?

Mr. HANES. Their list shows the date of the giving of the commission, the ship on which the commission was given, the amount of the commission, and to whom it was paid, whether the captain, steward, first officer, etc., and whether it was for ship supplies, anchors, or hardware.

The CHAIRMAN. Do you know of any instance where operators have protested against the size of the bill and secured a reduction?

Mr. HANES. Yes, sir; in the early part of 1920 the general comptroller and Col. Abadie at that time received a communication from the district auditor at Norfolk inclosing the bills and correspondence with reference to supplies on three ships. One was a ship which was operated by A. D. Cummings & Co., the supplies on which had been furnished by W. P. Wilkin & Co., ship chandlers, in Norfolk. The bills seemed to be exorbitant, and from an investigation the district auditor at Norfolk reported it was impossible—for instance, it was impossible to get the amount of meat which they had charged for into the ice box of the ship. Then followed a course of correspondence between the district auditor and the general comptroller and the district auditor and A. D. Cummings & Co. A. D. Cummings & Co. finally wrote to W. P. Wilkin & Co. and demanded a refund of \$5,000 on approximately an \$11,000 order. This Wilkin & Co. agreed to, and the letter was forwarded by A. D. Cummings & Co. to the district auditor at Norfolk. Whether or not that refund has been collected I don't know.

The CHAIRMAN. Do you know of any instance where stewards received commissions on stocks for five ships, and never sailed with any or either of them?

Mr. HANES. What is that, sir?

The CHAIRMAN. And did not sail with either of the ships?

Mr. HANES. Well, in Norfolk I heard from Mr. Dalby that a particular steward in that port of Norfolk, which had been termed a "land steward," had bought and stocked five ships of the Emergency Fleet Corporation, and after receiving the commission on the supplies purchased had refused to sail, and after they had gotten onto him in Norfolk, he had gone to Philadelphia to continue his operations there.

The CHAIRMAN. Is he still with the Shipping Board?

Mr. HANES. I don't know.

The CHAIRMAN. Have you ever received any information from any official or employee of the Shipping Board as to property of the

Shipping Board being used in private houses or hotels, or being sold to the public?

Mr. HANES. In August of 1920 the Emergency Fleet Corporation sent an engineer whose name I can not recall, either, to the Orient to make certain investigations. This engineer stated to Mr. W. R. Morton and myself that some time previous to that while in Yokohama, in the Hotel de France, he had noticed that all, or practically all, of the linen and silverware in the hotel was stamped with the mark of the United States Shipping Board.

Mr. C. B. Dalby, referred to before as checker at Norfolk, told me that in La Police he had seen vendors and persons employed aboard the ships—sailors and officers, oilers, etc.—selling Shipping Board linen and supplies to the public in that town.

The CHAIRMAN. Do you know whether any further investigation was made of that matter?

Mr. HANES. So far as I know, there was not.

The CHAIRMAN. To whom did you report it?

Mr. HANES. I reported it to—I don't think I had reported it, because it had previously been reported by Mr. Dalby before I went to Norfolk; and I think it is contained in the reports of the special agent, which is now in the hands of Mr. John J. Keenan.

The CHAIRMAN. You don't know whether it was lawfully sold or not, do you?

Mr. HANES. No, sir.

The CHAIRMAN. It may have been?

Mr. HANES. I may have been.

The CHAIRMAN. If it was, there was nothing to criticize about it?

Mr. HANES. Nothing to criticize.

The CHAIRMAN. You think an investigation has been made of the matter?

Mr. HANES. So far as I know, there has not; no, sir.

The CHAIRMAN. You don't know whether there has or not?

Mr. HANES. No, sir.

The CHAIRMAN. If they were lawfully sold by the Shipping Board, do you know whether or not there was any reason for their sale?

Mr. HANES. No, sir; I do not.

The CHAIRMAN. Do you know whether they could have been used by the Shipping Board instead of being sold?

Mr. HANES. Why, Mr. Dalby left me with the impression that the stuff was perfectly good, and that it was just taken off the ship promiscuously.

The CHAIRMAN. Do you know anything about the Shipping Board or its officials purchasing typewriters when they would have a store on hand that might have been used?

Mr. HANES. In the port of Norfolk, this spring, a special agent reported to me that in the storeroom at that port there were 36 typewriters, of various makes, in good condition; and that at the same time the Shipping Board was purchasing typewriters for the ships operating out of that port.

The CHAIRMAN. Did you make any further investigation of that?

Mr. HANES. No, sir; I made a report of it.

The CHAIRMAN. Who to?

Mr. HANES. Mr. Meehan, deputy chief of the department of investigation.

The CHAIRMAN. Do you know of any instance where a ship was improperly repaired, known to be improperly repaired at the time, and later got into difficulties after it had sailed?

Mr. HANES. About January 15, 1920, I received a report from a special agent of the comptroller's department in Philadelphia—this man was on the outside, known as a time and material checker, and was performing those duties and making special reports—to the effect that a ship of the Emergency Fleet, undergoing repairs at Cramp & Co., at Philadelphia, was improperly repaired, and that the crew had signed a sealed statement to the effect that she was improperly repaired, and this statement was to be opened if anything happened to this ship at sea.

The CHAIRMAN. Who told you all this?

Mr. HANES. This was contained in a report from a special agent in Philadelphia.

The CHAIRMAN. Yes; but whom?

Mr. HANES. I don't know what his name was; they all went by numbers.

The CHAIRMAN. This report did not identify the man by name?

Mr. HANES. No, sir; they came in by numbers. I made a report of this matter to Mr. Keenan, who at that time was my superior, and he told me that he had reported that matter to Mr. Dunning.

The CHAIRMAN. Who was Mr. Dunning?

Mr. HANES. I believe at that time he was assistant to the chief of construction and repair, Mr. Haig; whether or not anything was done I don't know. But I noticed in the newspaper report about a week later that the ship had become disabled about 400 miles out of Philadelphia.

The CHAIRMAN. What was the name of that ship?

Mr. HANES. I don't remember the ship.

The CHAIRMAN. How do you know that fact, then, when you say you noticed it in the newspaper that the ship had become disabled?

Mr. HANES. At that time I remembered the name of the ship.

The CHAIRMAN. Now, when was this?

Mr. HANES. About January 15, 1920.

The CHAIRMAN. Was the sealed statement opened?

Mr. HANES. So far as I know it was not.

The CHAIRMAN. Who was it left with?

Mr. HANES. I imagine it was left with the port authorities at Philadelphia; I don't know who it was left with.

The CHAIRMAN. Don't you know?

Mr. HANES. No, sir; I do not.

The CHAIRMAN. Didn't this report state what had become of it?

Mr. HANES. No, sir; simply stated that the sealed statement had been prepared.

The CHAIRMAN. To the effect that the repairs were being improperly done?

Mr. HANES. Yes, sir.

The CHAIRMAN. And that statement was to be opened if anything happened to the ship?

Mr. HANES. Yes, sir.

The CHAIRMAN. And later you saw the newspaper report that something had happened to the ship?

Mr. HANES. Yes, sir.

The CHAIRMAN. Have you ever looked into that since?

Mr. HANES. No, sir.

The CHAIRMAN. You don't know whether something actually did happen to the ship or not?

Mr. HANES. No, sir; I do not.

The CHAIRMAN. You don't know whether this sealed statement was opened?

Mr. HANES. No, sir.

The CHAIRMAN. And you don't know whether the repairs were improperly done?

Mr. HANES. No, sir; my duty ended——

The CHAIRMAN. Can you find out who that man is that made that report to you by number?

Mr. HANES. Could I?

The CHAIRMAN. Yes.

Mr. HANES. I don't think I could, not in that office.

The CHAIRMAN. Who can find out?

Mr. HANES. I think Mr. Keenan could tell you who the man was.

The CHAIRMAN. Who is he?

Mr. HANES. He was—he was assistant to the general comptroller at that time; I was working under him.

The CHAIRMAN. Where is he?

Mr. HANES. In Washington.

The CHAIRMAN. Mr. Keenan? Do you know his initials?

Mr. HANES. J. J.

The CHAIRMAN. J. J. Keenan?

Mr. HANES. Yes, sir.

The CHAIRMAN. Were you ever threatened with the loss of your position by anybody while you were in performance of your duties at Norfolk?

Mr. HANES. In March, 1920, I was assigned by the general comptroller to work in cooperation with the department of investigation in the investigation to be made at Norfolk. This investigation incidentally was being made at the instance of the general comptroller's department. Shortly after going to Norfolk I went into the office of the International Mercantile Marine in Norfolk with reference to this coal investigation that I referred to before. While there I noticed a bill of the Marine Equipment Co. Previous to that time I had received information to the effect that Mr. Norman Hamilton, collector of customs in the port of Norfolk, was interested financially in this concern; and I inquired of one of the attendants or one of the clerks there as to who the officers of the International Mercantile Marine—of the Marine Equipment Co.—were. He told me—named two or three men that were interested in the Marine Equipment Co., and later I was called in by a Mr. E. B. Wood, at that time district auditor for the Emergency Fleet in Norfolk and a brother-in-law of Mr. Hamilton, and asked if I had been making inquiries about Mr. Hamilton. I replied that I had not, all the inquiries I had made were as to who the officers and stockholders of the Marine Equipment Co. were. "Well," he said, "I want to tell you if you are making any inquiries about Mr. Hamilton, you better lay off, because Mr. Hamilton is the closest man in the State of Virginia to President Wilson."

The CHAIRMAN. Who was Wood?

Mr. HANES. He was at that time district auditor for the Emergency Fleet Corporation in Norfolk.

The CHAIRMAN. He was just conveying a gentle hint to you that Mr. Hamilton was politically powerful in Virginia, and you to be careful about your investigation, wasn't he?

Mr. HANES. He was a brother-in-law of Mr. Hamilton, and I did not take it that way.

The CHAIRMAN. He was Mr. Hamilton's brother-in-law?

Mr. HANES. Yes, sir.

The CHAIRMAN. Did you "lay off" your investigation?

Mr. HANES. No, sir.

The CHAIRMAN. Did you continue it?

Mr. HANES. Yes, sir.

The CHAIRMAN. Did you complete it?

Mr. HANES. I received an affidavit from the president of the company—the Marine Equipment Co.—not an affidavit but a statement made in the presence of witnesses that Mr. Hamilton was interested to the extent of \$10,000 worth of stock in the Marine Equipment Co.

The CHAIRMAN. And he was collector of the port?

Mr. HANES. Yes, sir.

The CHAIRMAN. Did you make any inquiry as to any overpayments for lunch time at Norfolk?

Mr. HANES. "Launch time"?

The CHAIRMAN. Lunch time.

Mr. HANES. I think that is a typographical error, Mr. Chairman. It means launch time. Two or three of the traveling auditors working on the audit of the district at Norfolk reported to me that they had discovered an overcharge of approximately \$1,000, maybe a little more, of duplicate launch time. That is, one of the repair companies would send out a launch with, we will say, 60 men aboard to go to three different ships in the stream. They would go to each one of them on the same trip. But the captain or steward or checker on each one of these ships would give the men in charge of the launch a receipt, showing that he had visited that ship, and showing where the ship lay, and the approximate running time from the repair company's yard to the ship. Then when the bills were made up, they were made up separately for each ship, and they would charge for a separate trip to each ship instead of for the total time elapsed.

The CHAIRMAN. How much?

Mr. HANES. It ran about \$5 an hour, and the total amount of the overcharge approximately \$1,000.

The CHAIRMAN. Any refund?

Mr. HANES. So far as I know there has been no refund made.

The CHAIRMAN. To whom did you report?

Mr. HANES. That was reported by auditors to Mr. Tweedale, the assistant comptroller.

The CHAIRMAN. How long ago did that occur?

Mr. HANES. That was last April or May.

The CHAIRMAN. Any questions, Mr. Kelley?

Mr. KELLEY. Yes. Now, as to the rates of pay in these repair schedules. My understanding of your testimony is that it is the only rate plus the profits included in one item.

Mr. HANES. Yes, sir. At the present time I believe that the rate is even a little higher than under the previous cost plus.

Mr. KELLEY. That is, if under the old rate it was 80 cents an hour, and plus 50 per cent profit, that would be on the basis of \$1.20 an hour under this arrangement.

Mr. HANES. Yes, sir.

Mr. KELLEY. But you think that this is a little better for the repair company than the old contract?

Mr. HANES. Yes, sir. That is, their rates seem to be higher.

Mr. KELLEY. Then the Government really is not making anything by abandoning the cost-plus policy so far as the repair bills are concerned?

Mr. HANES. Well, there may be savings in other ways of which I don't know.

Mr. KELLEY. But not as to labor?

Mr. HANES. Not as to the particular amount of the rates.

Mr. KELLEY. What do you mean, now, by that?

Mr. HANES. The rates appear to be somewhat higher, but there may be a saving in other lines.

Mr. KELLEY. As to the rate of pay of the new schedule in that it provides for a higher rate than the old schedule actually?

Mr. HANES. Yes, sir.

Mr. KELLEY. What is the total monthly repair bill in the port of New York?

Mr. HANES. I saw an estimate submitted by the auditor of repairs recently covering, I believe, the month of October, which was \$2,500,000 for the month.

Mr. KELLEY. For what?

Mr. HANES. \$2,500,000 for the month.

Mr. KELLEY. And that is approximately one-half the ships that are operated and controlled by the Emergency Fleet Corporation?

Mr. HANES. I don't know.

Mr. KELLEY. I think the testimony here has been that there was about 600 ships operating out of the New York ports. So that we have got a repair bill of approximately \$5,000,000 per month.

Mr. HANES. You must realize that a number of these ships that are operating out of the port of New York have repairs done in foreign countries.

Mr. KELLEY. Oh, yes; this does not include the whole repair, of course.

Mr. HANES. No, sir; that does not include the whole repairs to the ships operating out of this port.

Mr. KELLEY. Now, have you any figures to show about what the repairs would be relatively, made in foreign ports?

Mr. HANES. No, sir; I have not.

Mr. KELLEY. Have you any estimate of that at all that would be of any help to anybody?

Mr. HANES. No, sir.

Mr. KELLEY. So that the best that we could say right now is that it costs the United States Government \$5,000,000 a month to repair ships?

Mr. HANES. I could not even say that.

Mr. KELLEY. Based upon the month of October in New York?

Mr. HANES. Well, if your conclusions are correct.

Mr. KELLEY. Well, half the tonnage—for the ships that are sailing out of New York?

Mr. HANES. Yes.

Mr. KELLEY. The information that has been supplied is that there are 550 ships sailing out of the port of New York in October. Probably many of them were of the larger size which would sail out of this port.

Mr. HANES. The faster lines.

Mr. KELLEY. So that about half the tonnage, if there are 1,200 ships in all, would be out of New York?

Mr. HANES. I have nothing on which to base that estimate.

Mr. KELLEY. That is \$60,000,000 a year in repairs in American ports, probably?

Mr. HANES. If your estimates are true, that would be the conclusion; yes, sir.

Mr. KELLEY. Can you not give us some sort of an estimate as to what the repairs would be in foreign ports?

Mr. HANES. No, sir.

Mr. KELLEY. Who could give that information?

Mr. HANES. Well, for the ships operating out of the port of New York, the district comptroller, Mr. Meegan, should be able to give that information.

Mr. KELLEY. From your information, is it a proper supervision of a repair business on the part of the Government running into \$60,000 or \$70,000 a year?

Mr. HANES. Well, as to the time and material checkers in the port of New York, there is proper supervision, with the exception of the fact that they do not receive the requisitions in time to make the supervision which they would otherwise be enabled to do.

Mr. KELLEY. In other words, the checkers would be all right if they knew what repairs had been ordered by the Government before the ships had sailed?

Mr. HANES. Yes, sir; and the checkers at the present time are doing the best they can under the circumstances.

Mr. KELLEY. But not knowing that, they are not able to tell whether the repairs ordered by the Government are actually being made or not?

Mr. HANES. In some cases they are not.

Mr. KELLEY. Fifty cases, you testified?

Mr. HANES. No; I testified that in 50 per cent they did not receive the requisition, or approximately 50 per cent of the cases, until after the ship had sailed. But I testified they had been depending upon the contractors and getting the contractors' work order on which this work was done, and in a number of cases that the contractors' work order is correct.

Mr. KELLEY. I know. But is that a proper system under which to do \$50,000,000 worth of repairs on ships per year?

Mr. HANES. Well, as to the system, I do not know. I can only say—

Mr. KELLEY (interposing). You only know how it works out.

Mr. HANES. I can only say that where they do not receive the requisition or even the work order, that a number of times they are unable to cover the ships at all.

Mr. KELLEY. Of course, with some repair men you would not need any checkers or anybody to look into it at all; they are perfectly honest men who would do a good job whether anybody was around to supervise them or not. But you would not want to rely upon that sort of a policy.

Mr. HANES. I would not; no, sir.

Mr. KELLEY. No; are any of these ships assigned to the Brooklyn Navy Yard for repairs?

Mr. HANES. I have never seen a ship assigned over there.

Mr. KELLEY. Do you know why they are not assigned over there?

Mr. HANES. No, sir.

Mr. KELLEY. They have got a great plant there—the Government?

Mr. HANES. I have never been over there.

Mr. KELLEY. You do not know of any bills coming through from the Brooklyn yard at all?

Mr. HANES. No, sir; I have never seen one.

Mr. KELLEY. Whose business is it to know what supplies are on board a ship?

Mr. HANES. What supplies are needed—what supplies are on board and what supplies are needed?

Mr. KELLEY. Yes; the property of the Government on board a ship. Whose business is it to know when it is taken and when it is not taken; how can they tell, and whose business is it to find out?

Mr. HANES. The steward is supposed to determine what supplies are needed. That determination is, of course, based upon the amount he has left on hand when he comes to a port.

Mr. KELLEY. Well, take the linen. You have testified here that it is possible that linen has been peddled by the boys of ships on the streets of some town in France. How could that happen without the boys being apprehended for it?

Mr. HANES. I do not know whose business it is to check up on the supplies on board.

Mr. KELLEY. That is what I am trying to get at.

Mr. HANES. I do not know of a check ever having been made so long as I have been connected with the board.

Mr. KELLEY. Whose office in the United States Government on shore has a record of the supplies on board ships?

Mr. HANES. I do not know of any such records.

Mr. KELLEY. You do not know how many table cloths or how much linen or how much silver or anything of that kind there is on any ship?

Mr. HANES. I do not know of any record.

Mr. KELLEY. You do not believe there is any record anywhere?

Mr. HANES. I do not know of it.

Mr. KELLEY. It is just on the records of the ship, you think?

Mr. HANES. Well, that is all I know about.

Mr. KELLEY. You would not be sure about that, would you?

Mr. HANES. No, sir.

Mr. KELLEY. It does not seem possible that you could be right about that?

Mr. HANES. Well, I do not know. I have never heard of any such record, and I could not state positively that there is none, sir.

Mr. KELLEY: Are you prepared to say how much you think that a good business man could reduce these repairs and percentages——

Mr. HANES. No, sir.

Mr. KELLEY (continuing). If he were given authority to have ships repaired?

Mr. HANES. No, sir; that is something that would take a man with a knowledge of engineering.

Mr. KELLEY. You are certain that the Government is paying quite a percentage more for its repairs than need be paid?

Mr. HANES. I do not think I testified to that. I testified to some instances where they had paid more than I thought was necessary.

Mr. KELLEY. And that the system of checking is such that those overcharges are easily practiced upon the Government?

Mr. HANES. You mean the system in the construction and repair department?

Mr. KELLEY. No; the system of checking repairs and ordering the work done, and determining whether it has been done or not, and what the proper rate is, and how many men are being employed upon a job, for instance, where you have six men doing the work when there is only room for two, and that kind of thing that you have testified here about this morning. That all runs into money. Now, what I am getting at is, how much is the Government losing by this slipshod method of handling its business on repairs.

Mr. HANES. I am unable to give you any estimate. I can only say there have been several instances I have seen and heard of that make it appear they are losing, but how much I can not say.

Mr. KELLEY. You would not want to have any stock in a corporation, would you, that ordered \$50,000,000 worth of repairs on ships under the system that you have detailed here this morning?

Mr. HANES. I do not believe I would.

Mr. KELLEY. What was this concern down at Baltimore, a wholesale or a retail house that you spoke of, that Sparrows Point?

Mr. HANES. It was a ship chandler store, and the majority of ship chandler stores are rather a mixture between wholesalers and retailers.

Mr. KELLEY. When they supplied meat to the Government, did they sell it at wholesale or retail?

Mr. HANES. They sold it at a profit over wholesale.

Mr. KELLEY. That is retail, is it not?

Mr. HANES. No, sir.

Mr. KELLEY. Well, a profit over wholesale is retail?

Mr. HANES. No, sir. There is a difference in that. The retail percentage added by regular retailers in small quantities is greater than the percentage of profit which was added or is added by ship chandlery concerns.

Mr. KELLEY. Can you give me any reason in the world why the Government, with 1,200 ships on the sea, should pay a profit over wholesale for meats?

Mr. HANES. No, sir. On the west coast the majority of supplies are purchased directly from the wholesaler.

Mr. KELLEY. Do you know of any reason why it should not be done on the east coast?

Mr. HANES. No, sir.

Mr. KELLEY. Do you know how much the meat bill is for all these ships?

Mr. HANES. No, sir.

Mr. KELLEY. Do you know how much it is in the port of New York?

Mr. HANES. No, sir.

Mr. KELLEY. Do you know how much the bill for food in the port of New York is?

Mr. HANES. No, sir.

Mr. KELLEY. Or is all the food bought in the same way at these various stores around at the different towns?

Mr. HANES. All of the ship supplies which I have seen purchased on the Atlantic coast.

Mr. KELLEY. Where do they get the butter?

Mr. HANES. From the ship chandler.

Mr. KELLEY. Do they buy it at retail?

Mr. HANES. It is not exactly retail, Mr. Kelley.

Mr. KELLEY. That is to say, they make a little reduction?

Mr. HANES. They make a little reduction on account of quantity. They do to commercial ships, too. On account of the large quantity purchased at one time there is a small reduction.

Mr. KELLEY. What is the profit that is ordinarily exacted by the ship chandler over wholesale?

Mr. HANES. From investigations of ship-chandler stores that I have made, I would say that it runs in various cases anywhere from 33½ to 75 per cent.

Mr. KELLEY. Profit?

Mr. HANES. Yes, sir.

Mr. KELLEY. Well, then, for every \$100 that the Government puts into beef and other supplies, from \$33½ to \$75 is profit which could be avoided had they bought it wholesale?

Mr. HANES. I would think so; yes, sir. Of course, there would be some expense for delivery to these ships. Some deliveries are made in the stream, and I would think that under such a system it would be necessary for the Government to maintain a system of deliveries, because the wholesalers will not make deliveries, of course, in the stream.

Mr. KELLEY. How much would it cost the Government, probably, to erect a sufficient number of storehouses to handle this and deliver it to the ships?

Mr. HANES. I do not know.

Mr. KELLEY. You are testifying of your knowledge now, are you not, that from 33½ to 75 per cent of all the Government pays out for supplies in the way of food——

Mr. HANES (interposing). Pardon me, Mr. Kelley——

Mr. KELLEY (continuing). Is profit which could be avoided had they bought at wholesale?

Mr. HANES. I said that from the investigation of the ship-chandler stores which I have made. I do not know that that applies in all cases.

Mr. KELLEY. Do you know how many men there are who are fed under this system?

Mr. HANES. No, sir; I do not.

Mr. KELLEY. And you do not know how much it costs a day to feed them?

Mr. HANES. No, sir.

Mr. KELLEY. Well, what you do know is from 33½ to 75 per cent of it probably could be saved under a different system?

Mr. HANES. I said that the ship-chandler stores which I had investigated made a profit of that much.

The CHAIRMAN. How many ship-chandler concerns have you investigated?

Mr. HANES. Well, I should say from 8 to 10.

The CHAIRMAN. In New York?

Mr. HANES. No, sir.

The CHAIRMAN. Where?

Mr. HANES. Baltimore and Norfolk.

The CHAIRMAN. New York, Baltimore, and Norfolk?

Mr. HANES. I have not investigated any ship-chandler stores in New York. The only information I have from New York ship-chandler stores, is from information given me by an examiner of the Federal Trade Commission.

The CHAIRMAN. Do you know whether the Shipping Board or the Fleet Corporation are making or contemplating any changes in the method of furnishing supplies to ships?

Mr. HANES. No, sir. I have heard the proposition discussed by minor employees, but I do not know that there is any contemplated change.

The CHAIRMAN. Recently?

Mr. HANES. Yes, sir.

The CHAIRMAN. How recently?

Mr. HANES. Well, within the past two months.

The CHAIRMAN. About installing a new system for that?

Mr. HANES. Yes, sir.

The CHAIRMAN. The steward does not have anything to do with the engine-room supplies, does he?

Mr. HANES. No, sir.

The CHAIRMAN. So, when you said that the steward would have possession of supplies furnished to ships, you meant only in his own department?

Mr. HANES. Yes, sir.

The CHAIRMAN. When repairs are made to a ship down here at one of these yards in New York, if the requisition is received before the repairs are started, men are down there checking up the materials and the time occupied in making the repairs.

Mr. HANES. If it is a time and material job; yes, sir.

The CHAIRMAN. Well, now, assume it is. The Fleet Corporation has men there checking it up.

Mr. HANES. Yes, sir.

The CHAIRMAN. Can cost of the repairs exceed the amount set out in the requisition?

Mr. HANES. There is no amount set out in the requisition.

The CHAIRMAN. So they simply get a requisition for these repairs on this material?

Mr. HANES. Yes, sir.

The CHAIRMAN. Well, then, what difference does it make if there is no amount set out there as to whether or not checking is done without that requisition having been received or not? Can you not go down and check up the material that goes into those repairs, the amount of time consumed on them, irrespective of whether you get the requisition after the ship sails, or whether you ever get it, so long as you know what actually went into the ship and how much time was consumed?

Mr. HANES. No, sir; because unless you have that requisition, where there is only time and materials job on a ship, it is impossible for the checkers employed, unless they know the kind of work and class of work to be done, whether or not it is necessary to have the particular class of laborers employed on that ship that are there. Again it is——

The CHAIRMAN (interposing). Wait just a minute. Just on that point, unless they have the requisition they would be unable to determine the particular class of labor that would be required to do a certain piece of repair work; is that it?

Mr. HANES. Yes, sir.

The CHAIRMAN. Is that the kind of checkers who are employed in doing this work?

Mr. HANES. The checkers that the Shipping Board employs are in the majority of cases not engineers.

The CHAIRMAN. Don't they know whether you need a plumber or a blacksmith or a machinist to do a particular piece of work without having to refer to a requisition to find out?

Mr. HANES. Not unless they know what work is to be done.

The CHAIRMAN. Do they not know when they go aboard the ship at the repair yard and see the men working? Are they not able to tell whether they are repairing something that really needs repairs or not?

Mr. HANES. No, sir.

The CHAIRMAN. The checkers are there for what purpose?

Mr. HANES. To check the number of men, the class of men, the amount and kind of labor.

The CHAIRMAN. Yes, sir.

Mr. HANES. In addition, Mr. Chairman, the reason for having these requisitions arises particularly in this case: Where you have a contract job and a time and material job both going on on the ship at the same time, the particular job is let and there is a possibility, unless you have the time and material requisition, that you will have men working on the contract job and charged to the time and material work. That is the principal purpose for the requisition.

The CHAIRMAN. So it is to see that the work being done under contract is actually being rendered and that the materials being supplied under that contract are actually being furnished, and that neither one is included in the other?

Mr. HANES. Well, the checkers do not check contract work. But what I meant to convey was that the purpose of this requisition is to determine and guard against the men working on the contract job not being charged on the time and materials job; for instance, a checker will be at the gangplank, and you have men coming up the gangplank working on the contract job, and men coming up on the

gangplank working on the time and materials job. Now, it is necessary for the checker to determine from the requisition and from the class of labor which is time and material and which is contract, so as not to credit the contract on the time and material bill with men who are actually working on the contract job.

The CHAIRMAN. You do not make any check of work done under contracts?

Mr. HANES. No.

The CHAIRMAN. Why?

Mr. HANES. Well, it is, I imagine, not thought necessary.

The CHAIRMAN. Why?

Mr. HANES. You have got to pay that price anyway; that is, they make no check as to the number of hours that men work or the class of labor. Now, all that the Shipping Board under a contract wants to know is that the work which they have contracted to do is actually performed.

The CHAIRMAN. They find that out afterwards, do they?

Mr. HANES. Yes, sir.

The CHAIRMAN. So that if they make a contract for a certain quality of material, and the contractor goes ahead and uses an inferior quality, the Shipping Board will not find it out until after the contract has been performed.

Mr. HANES. Well, under the system there is supposed to be a daily, an almost twice-daily, supervision by an engineer.

The CHAIRMAN. Well, what engineer? The engineer of the ship?

Mr. HANES. No, sir; the engineer of—well, the situation is so mixed up under the present managing operating agreement that I do not believe I can say just which one, but either the port engineer or the Bureau of Survey or the Shipping Board engineer. Now, which one, I do not know.

Mr. KELLEY. Somebody, anyhow?

Mr. HANES. Somebody.

The CHAIRMAN. Somebody goes down there twice a day—

Mr. HANES. Supposed to. [Laughter.]

The CHAIRMAN (continuing). And inspects the work?

Mr. HANES. Yes, sir.

The CHAIRMAN. So that contract work is supervised but not checked?

Mr. HANES. Supposed to be; yes, sir.

The CHAIRMAN. I mean "supposed" to be. [Laughter.] Do you know whether the Shipping Board is contemplating making any changes in the operators' agreement with reference to the matter of repairs?

Mr. HANES. No, sir; I do not.

The CHAIRMAN. Do you know whether they are contemplating making any changes with reference to the time and material contracts for repairs?

Mr. HANES. No, sir. I do not.

The CHAIRMAN. What was your business before you went into the Shipping Board?

Mr. HANES. I was with the Department of Justice.

The CHAIRMAN. As an investigator?

Mr. HANES. As an attorney.

The CHAIRMAN. Here in New York?

Mr. HANES. Washington.

The CHAIRMAN. In whose office?

Mr. HANES. In Mr. John Lord O'Brien's.

The CHAIRMAN. Was he in the admiralty division of that department?

Mr. HANES. No, sir.

Mr. KELLEY. You said you were not quite sure whether it was the engineer employed by the Shipping Board or by the operator that kept track of the character of the work put in on repairs?

Mr. HANES. Or the Bureau of Survey.

Mr. KELLEY. In a great many cases, or in some cases at least, the repairs are made by the operator himself, are they not?

Mr. HANES. I understand so; yes.

Mr. KELLEY. Of what value would it be to the Government, or what protection to the Government, would it be to have the engineer or the operator check this thing?

Mr. HANES. The operators are supposed to be the agents of the Government.

Mr. KELLEY. Yes; but they are principals on the other side of the deal. They won the yards; they are contracting with themselves; they represent the Government as an agent, and themselves as principal. And which would be apt to get the better end of the bargain in such a case as that?

Mr. HANES. I do not know where any manager and operator of a Shipping Board ship owns the yards where such work is done.

Mr. KELLEY. There are a great many of those, are there not?

Mr. HANES. I do not know.

Mr. KELLEY. Nearly all these larger operators have yards of their own in which to repair ships?

Mr. HANES. I do not know.

Mr. KELLEY. That has been testified to here.

Mr. HANES. I have not heard it.

Mr. KELLEY. In these various yards where you have made investigations, you do not know whether the operators really own and control the yards or not, do you?

Mr. HANES. No, sir.

Mr. KELLEY. It would be a very natural thing, would it not, for the operator of a number of ships to own the repair yards and save the profit to his own concern rather than giving it out to somebody else?

Mr. HANES. I should think that would be a pretty good arrangement.

Mr. KELLEY. Why, yes; sure. Now, the Government takes no special pains to protect itself, as you understand it, against overcharges on behalf of repairs made in the yards owned by operators?

Mr. HANES. If they do, I do not know of it.

Mr. KELLEY. You never heard of any special arrangement being made?

Mr. HANES. No, sir.

Mr. KELLEY. No provision by which operators are forbidden to repair Government ships in their own yards, is there?

Mr. HANES. I do not believe there is any such provision in the managing and operating agreement; if there is, I have not seen it.

The CHAIRMAN. Do you know how many ships the Shipping Board has floated under the operators' agreement?

Mr. HANES. I have heard that there were about 1,200; I do not know.

The CHAIRMAN. And the instances you have given here are confined to these three ports—New York, Baltimore, and Norfolk?

Mr. HANES. Yes, sir; I have not touched on the west coast at all.

The CHAIRMAN. You have never made any investigation there?

Mr. HANES. I was out there for about two months and a half this summer; yes.

The CHAIRMAN. Investigating?

Mr. HANES. Yes, sir.

The CHAIRMAN. What?

Mr. HANES. The method of procedure in buying supplies, and I believe I did testify that in the majority of the cases on the west coast they bought direct from the wholesaler, and, in some instances, in personnel, in the Seattle office, and also in an investigation of the contract for the sale of ships made to the National Oil Co., an investigation of the Benson & Smith telemotor system, and a preliminary investigation of the matter of placing some derricks on a ship.

The CHAIRMAN. You were working with Mr. Morton?

Mr. HANES. Under him; yes, sir.

The CHAIRMAN. Under Mr. Morton?

Mr. HANES. Yes, sir.

The CHAIRMAN. Did you complete the investigation of this telemotor apparatus?

Mr. HANES. No, sir.

The CHAIRMAN. Do you know what was done about that?

Mr. HANES. No, sir. :

The CHAIRMAN. How far did you go with it?

Mr. HANES. Why, Mr. Morton and myself got so far as getting testimony from port captains and port engineers, managing operators of Shipping Board ships, who testified that the system was no good; an investigation of the *City of Omaha*, which was damaged to the extent of about \$57,000 as a result of this system having failed to operate; and also an investigation, of course, between the home office in Philadelphia and the district director, I believe his title is, of construction and repair in San Francisco, with reference to the installation of these telemotors.

The CHAIRMAN. In any of the investigations that you have made, have you ever inquired of private steamship companies, that is to say, steamship companies that are operating ships other than those allocated to them by the Shipping Board or owned by the Government, as to how they did their business?

Mr. HANES. Which business? Their whole business, or with reference to this telemotor?

The CHAIRMAN. No. I mean, in other words, in making your investigations that you have made, all of them, have you ever inquired of private ship companies, that is, companies operating steamers other than those allocated to them by the Shipping Board, or owned by the Government, as to how they did their business in these particulars which you were investigating?

Mr. HANES. On the Sparrows Point Stores Co., I did not go to the steamship company, but I questioned the manager of the Sparrows

Point Stores Co., who, of course, was cognizant of their methods of purchasing supplies, that is, the method of purchasing supplies by the private concerns; and I have talked to Mr. Robert Hasler, of Robert Hasler & Co., as to the methods he had of purchasing supplies, and I have talked to the port engineer of the Pacific Mail Steamship Co. with reference to his particular system of having repairs made.

The CHAIRMAN. What did you find when you made inquiry of these private concerns operating their own ships, or ships other than those allocated by the Shipping Board or owned by the Government, as to the prevalence of these practices that you have described as applying to Shipping Board ships?

Mr. HANES. Mr. Waldman, the manager of the Sparrows Point Stores Co.—

The CHAIRMAN. Who?

Mr. HANES. W-a-l-d-m-a-n, told me that the system of the steamship companies in the port of Baltimore, as to their own private ships, was to have an inventory made of the supplies on board ship as she came into port, check up on that and have the steward make out requisition of what he needed. Before, however, that was given, to have the port's steward of the operating company approve the requisition for supplies. Mr. Hasler, of Robert Hasler & Co., told me practically the same thing; and, in addition to that, Hasler told me that their own port engineers followed very carefully the work on the repairs. That was told me also by the port engineer of the Pacific Mail Steamship Co.

The CHAIRMAN. So they have a different system, a closer supervision?

Mr. HANES. Somewhat; yes, sir.

The CHAIRMAN. And you stated, in answer to a question by Mr. Kelley a few moments ago, that the operators were considered agents of the Shipping Board?

Mr. HANES. Yes, sir; that is, I believe, the legal interpretation put upon the managing and operating agreement by the legal department of the Shipping Board.

The CHAIRMAN. Have you ever had occasion to investigate any case or any matter where a concern was operating Shipping Board ships and at the same time operating its own ships?

Mr. HANES. I believe some of the companies to whom this Mr. Waldman, in Baltimore, referred to, were doing that, and it is my recollection that Robert Hasler & Co., or an affiliated company, the Hasler Steamship Co., in New York, were doing that; also the Pacific Mail Steamship Co.

The CHAIRMAN. Were they using their own system with their own ships and the Shipping Board system, so to speak, with the Shipping Board ships?

Mr. HANES. They did not come right out and say that, but they left me with that impression.

The CHAIRMAN. Have you any information as to discrimination by an operator between ships of his own and ships operated under the agreement with the Shipping Board?

Mr. HANES. I testified that the impression left upon me by talking with these three men was that there was discrimination. I have also

information from the Federal Trade Commission examiner who investigated the sale of supplies to the various ships on the Atlantic coast that there was discrimination, and I had information from various auditors who have made audits of the different districts of the Shipping Board, particularly Mr. C. E. Banhuf and Mr. C. R. Cooper, that there was such discrimination, and I have been told by other persons acquainted with the shipping business that there was such discrimination.

The CHAIRMAN. You were investigating this telemotor apparatus out there. Did you make any inquiry to find out whether it had been installed on privately operated ships?

Mr. HANES. The port engineer of the Pacific Mail Steamship Co. told me that no private concern would have them aboard their ships, and I asked him if the Pacific Mail Steamship Co. had them aboard their ships, and he replied, very sarcastically, "Certainly not."

The CHAIRMAN. Did you consult Mr. Muncaster, of the Pacific Mail Steamship Co.?

Mr. HANES. I believe that was his name; yes, sir.

The CHAIRMAN. Is he the port engineer or marine superintendent?

Mr. HANES. No; I think he was the port engineer.

The CHAIRMAN. Is that the only concern you inquired of to find out about the telemotor?

Mr. HANES. Yes, sir.

The CHAIRMAN. There are several companies operating on the Pacific coast out of San Francisco and those ports, are there not?

Mr. HANES. Yes, sir.

The CHAIRMAN. You do not know whether any of the others have installed this apparatus?

Mr. HANES. The information which I had did not disclose that any of the other operating companies had any ships on which the Benson & Smith telemotor systems were installed.

The CHAIRMAN. Do you know how long this apparatus has been on the market?

Mr. HANES. I have heard from some one, but I do not know just who it was, that it had been on the market about 7 or 8 years.

The CHAIRMAN. Have you made any inquiry on this coast as to what ships have it in operation?

Mr. HANES. No, sir. When I came back to Washington I was called off of that.

The CHAIRMAN. You do not know whether, perhaps, as a matter of fact, that a great many ships do have this apparatus installed and that it works successfully? You could not say as to that?

Mr. HANES. I talked to a captain of a ship last night, who told me that he would not have one of them on his ship; that he had seen so many cases where they had failed to work.

The CHAIRMAN. So it has been installed on probably a great number of ships?

Mr. HANES. I have had information to the effect that it was installed on practically all of the Emergency Fleet ships on both coasts.

Mr. KELLEY. There are quite a number of these operators of Shipping Board ships operating but one ship.

Mr. HANES. Do quite a number of them operate but one ship?

Mr. KELLEY. Yes.

Mr. HANES. I do not know of any case where only one ship is operated.

Mr. KELLEY. You do not know of a single case where the operator has only one ship?

Mr. HANES. No, sir.

Mr. KELLEY. What is the minimum number of ships that any one operator has?

Mr. HANES. Why, I do not know what the minimum would be.

Mr. KELLEY. I know, but so far as your investigation or information goes——

Mr. HANES (interposing). I think the minimum number of ships I have ever heard of being operated by one operator would be about five.

Mr. KELLEY. You think there is no operator having less than five ships?

Mr. HANES. I do not know, as I say; that is as far as my information reaches.

Mr. KELLEY. In your investigation of the expense of running the ship and repairs to the ship, did they run along about uniform with different operators or were they much higher with some operators than others?

Mr. HANES. I have never made a comparative statement or seen a comparative statement made of the amount of repairs by the different operators.

Mr. KELLEY. How about the expenses of food and all that for the different ships of the same tonnage operated by different companies; have you gone into that any?

Mr. HANES. No, sir.

Mr. KELLEY. Why would know about that?

Mr. HANES. So far as I know, there has never been any comparative statement made, Mr. Kelley, of that situation.

Mr. KELLEY. Is there not somebody in the Shipping Board somewhere along the line who could tell what the repairs and expenses of each ship was for a certain month?

Mr. HANES. Yes, sir. The district auditors or the district controllers would have that in their records. The bills for the different voyages coming in at the completion of the voyage would show the expenses of that ship for that particular voyage.

Mr. KELLEY. I understand that only eight voyage accounts have been audited out of 8,000 or 9,000.

Mr. HANES. Only eight or nine voyages?

Mr. KELLEY. Yes.

Mr. HANES. I never heard that.

Mr. KELLEY. I am reminded that that was up to a certain date, up to a few months ago. Perhaps the situation is different now.

Mr. HANES. My understanding of the accounting system—I do not know that it is correct—but my understanding of the accounting system is that the preliminary audit is made in the different districts. It may be that that information was that the final audit had only been made on eight voyages, but I think you will find that the preliminary audit for the district audits have been made on a great many more than that.

Mr. KELLEY. Does each operator fix the ration for a crew himself, or is there a uniform ration throughout the whole Shipping Board business?

Mr. HANES. So far as I know there is not a uniform ration throughout the Shipping Board business, nor is there any uniform ration for any particular manager or operator. The evidence which I have seen and the information which I have gathered has been that they leave the whole thing to the steward aboard the ship.

Mr. KELLEY. Is there anybody to check him up at all and say, "You must not have such and such food on the menu"?

Mr. HANES. I should think that the port steward or the purchasing officer would.

Mr. KELLEY. If the ship steward wanted grapefruit or oranges or any other fruit for breakfast for the men he would be at perfect liberty to order that?

Mr. HANES. They seem to be, because I have seen a great many bills where grapefruit and oranges, ripe olives, etc., were included in the bill for supplies.

Mr. KELLEY. And there is nobody who fixes the standard of the meals or rations?

Mr. HANES. So far as I know there is not; no, sir; other than the steward aboard ship.

Mr. KELLEY. The Government pays whatever each individual operator thinks he ought to feed his men?

Mr. HANES. I do not even know that each individual operator fixes the rations of the crew.

Mr. KELLEY. He leaves that to the steward of each individual ship?

Mr. HANES. So far as I have seen he does.

Mr. KELLEY. The fact is, the operator does not care what it costs, does he?

Mr. HANES. I have not heard any of them express their opinion as caring.

Mr. KELLEY. Why not?

Mr. HANES. Well, I do not know.

Mr. KELLEY. Yes you do.

Mr. HANES. The Shipping Board pays the bills.

Mr. KELLEY. That is the idea; and there is no inducement or incentive anywhere to economize or to save money because the Shipping Board "pays the bills"?

Mr. HANES. This was information given to me by this same Mr. Waldman, who should be in a position to know, being in the ship Chandler business—his statement to me was something like this: That under the previous managing and operating agreement, or one of the previous managing and operating agreements, the Shipping Board paid the ship manager and operator a commission on the net proceeds of the voyage, in addition to a set managing fee. But, then, under the managing and operating agreement which was later promulgated, the fee was paid on the gross proceeds; and that, consequently, any incentive that they had had to economize was thereby obliterated.

Mr. KELLEY. Now, the operator gets his percentage upon the gross receipts of his freight and passengers?

Mr. HANES. I understand that at the present time that is the practice.

Mr. KELLEY. And the Government pays all the expenses?

Mr. HANES. Yes, sir.

Mr. KELLEY. So that every incentive has been removed for economy in the management of that ship, both as to supplies and repairs?

Mr. HANES. That is what Mr. Waldman told me, and from my information and investigation that would seem to be the case.

Mr. KELLEY. Do you know whether or not, on the other contract, these small operators that had taken ships without any capital to speak of were losing money, and that this contract was changed to help them out?

Mr. HANES. No, sir.

Mr. KELLEY. Do you know whether or not the small operators have been losing money?

Mr. HANES. No, sir; I do not.

Mr. KELLEY. Or would be if they had to pay the bills?

Mr. HANES. That they would be losing money on the voyages?

Mr. KELLEY. Yes.

Mr. HANES. I have seen some voyages where the cost of operating the ship, together with the depreciation, was a great deal more than the proceeds.

Mr. KELLEY. Do you know how many corporations are operating the Shipping Board ships, where the organizers of the corporations, or the persons interested in the corporations, were formerly employees of the Shipping Board?

Mr. HANES. You mean in the managing and operating companies?

Mr. KELLEY. Yes.

Mr. HANES. I do not believe I do; no, sir.

Mr. KELLEY. You have never inquired into that, to see?

Mr. HANES. No, sir; I have not.

Mr. KELLEY. You do not know whether there are any or not?

Mr. HANES. No, sir; not in the managing and operating companies.

Mr. KELLEY. How about repair companies?

Mr. HANES. Yes, sir.

Mr. KELLEY. What do you know about that?

Mr. HANES. The Edwards Boiler Scaling Co., in Norfolk, was composed of a man named Edwards and a man named Cleary, both of whom had previously been employed by the Emergency Fleet Corporation as time and material checkers. Mr. Cleary later got out of the company and is now with the Shipping Board again. Mr. Edwards, I understand, has sold out his company and gone into some other business.

There is a company in the port of New York, the Coastwise Scaling Co., in which a man named Martin is interested who was previously a Shipping Board employee.

Mr. KELLEY. Well, those companies that you speak of were all legitimate companies; they were not merely brokers for handling the business and then turned it over to somebody else?

Mr. HANES. No, sir; they were scaling companies that actually did the work.

Mr. KELLEY. Yes. But you do not know how many of these operating companies were organized by men who are connected with the Shipping Board?

Mr. HANES. No, sir; I do not.

Mr. KELLEY. Who would know that? Who could get that information?

Mr. HANES. Why, the bureau—I do not know just what the technical name is—that has charge of the allocation of ships I should think would have that.

Mr. KELLEY. Is that under the Bureau of Operations, or is that a separate division down there?

Mr. HANES. That is under the Division of Operations, I think.

Mr. KELLEY. That is to say, the ships are allocated by a committee or a bureau in the Division of Operations?

Mr. HANES. Yes, sir; a component part of it.

Mr. KELLEY. And that committee, you think, would know enough about the operators to get this information?

Mr. HANES. I should think so; yes, sir.

Mr. KELLEY. How many of them, and which ones, were former employees of the Shipping Board?

Mr. HANES. I should think so.

Mr. KELLEY. And who do you say could prepare the relative expense of the various companies, the operating expense of different companies?

Mr. HANES. I should think that the different district comptrollers or district auditors should be able to do that.

Mr. KELLEY. Is there anybody in Washington that could furnish that? Would the information not get down that far?

Mr. HANES. It might; but whether or not it is there I do not know.

Mr. KELLEY. You think maybe they have never thought of that down there yet?

Mr. HANES. Well, I don't know. I have never seen any such statement.

Mr. KELLEY. Ordinarily it would be some advantage, would it not, to the Government to know which operators were costing them a lot of money and which were making money for them? A business man would like to know which factors, if he had a half dozen, were losing money and which making money.

Mr. HANES. I should think so.

Mr. KELLEY. Why would not the Government be interested in the same thing?

Mr. HANES. They may be, so far as I know, Mr. Kelley; but I should say that it would be a good business proposition. I say that I do not know whether they have that or not.

The CHAIRMAN. Have you seen this managing operators' agreement No. 3, or the one that these ships are being operated under?

Mr. HANES. At the present time? Yes, sir.

The CHAIRMAN. Do you say there is no incentive in that agreement for the operators to watch the expenses of operating the ships?

Mr. HANES. I testified, I believe, that in a conversation with Mr. Waldman, of the Sparrows Point Store Co., he had told me that such was the case.

The CHAIRMAN. Yes. Now I am asking you if you say so?

Mr. HANES. Well, I don't know. I have not seen any incentive in it to save any money.

The CHAIRMAN. Under that agreement the Shipping Board pays the expenses of operation and it is deducted from the proceeds of the voyage, is it not?

Mr. HANES. You mean before the commission is paid to the managers and operators?

The CHAIRMAN. Yes.

Mr. HANES. I do not think it is; no, sir.

The CHAIRMAN. Well, then, when they come to settle up on a voyage, the expense of operating the ship is deducted from the receipts, is it not? When they come to settle up on a voyage, a single voyage, do they not deduct the expense of operating that ship and the fee paid to the operator from the freight receipts for that voyage?

Mr. HANES. And deduct the whole business?

The CHAIRMAN. Yes.

Mr. HANES. Yes.

The CHAIRMAN. They deduct that from the receipts?

Mr. HANES. Yes.

The CHAIRMAN. And then the surplus is divided, is it not, between the Government and the operator?

Mr. HANES. No, sir.

The CHAIRMAN. It is not?

Mr. HANES. My understanding is that the present system is that the manager and operator of the ship pays the expenses of the voyage. Then he adds to those expenses his commission on the gross revenue. If the expense of the ship, plus the gross revenue to the manager and operator, is more than the total revenue of the ship, the Shipping Board reimburses the manager and operator.

Mr. KELLEY. That is out of the Treasury of the United States.

Mr. HANES. Or the proceeds from other ships.

The CHAIRMAN. What agreement is that?

Mr. HANES. That is M. O. No. 4.

The CHAIRMAN. Has that been put in force?

Mr. HANES. I understand that it is in force at the present time. I am not positive.

The CHAIRMAN. Do you know any company that is operating under No. 4?

Mr. HANES. At the present time?

The CHAIRMAN. Yes.

Mr. HANES. Mr. Chairman, I have not gone into the question of the managing and operating agreement very carefully, because it does not touch particularly on the work that I am doing. The only information I have had has been discussion with various auditors, who have told me that M. O. 4, which was recently—I believe within the last month and a half—put into effect, was made retroactive to March 1, 1920.

The CHAIRMAN. Then, under that, if there was no incentive under M. O. No. 3 there certainly is no incentive under M. O. No. 4.

Mr. HANES. I could not see any, from a reading of the agreement.

The CHAIRMAN. Have you any further questions, Mr. Kelley?

Mr. KELLEY. Not only has this new contract that you speak of gone into effect but it has been made retroactive, has it not?

Mr. HANES. I understand so; yes, sir.

Mr. KELLEY. So that it covers voyages that were in effect even before under the old contract?

Mr. HANES. That is my understanding of it.

Mr. KELLEY. That is all.

TESTIMONY OF MR. BETHUEL S. OAKES.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. What is your name, please?

Mr. OAKES. Bethuel S. Oakes.

The CHAIRMAN. Have you at any time been, or are you now, employed by the Shipping Board or Fleet Corporation, Mr. Oakes?

Mr. OAKES. I am; yes, sir.

The CHAIRMAN. How long have you been employed?

Mr. OAKES. Since April, 1918, up to May 24, 1920; then I was reinstated again October 25, 1920.

The CHAIRMAN. In what capacity?

Mr. OAKES. My former capacity was plant engineer at Wilmington, N. C.; my present capacity is in the sales division, New York office.

The CHAIRMAN. When you were plant engineer, what do you know as to an inventory being made of the plant property on account of the Liberty Shipbuilding Co.?

Mr. OAKES. In December, 1918, I think it was, or about that time, a physical plant inventory was taken of the plant and property. That was official, duly signed and tied in with the books of account at the plant, by the local auditor. Following that, some time in March, 1919, I think it was, an inventory was taken of the supplies and materials at the plant, which was also tied in, verified and tied in with the books of account.

The CHAIRMAN. What do you mean by "tied in" with the books of account?

Mr. OAKES. Well, reconciled with the books; that is, the amount available on hand compared with the material account in the books.

The CHAIRMAN. Proceed. Was there anything further about those two inventories?

Mr. OAKES. Nothing that I think of.

The CHAIRMAN. They were both made and they were both tied in?

Mr. OAKES. Both made and both tied in, and accepted and signed.

The CHAIRMAN. Accurate?

Mr. OAKES. Accurate; yes, sir.

The CHAIRMAN. Made in the usual way?

Mr. OAKES. Made in the usual manner, and in accordance with the usual practices for making inventories.

The CHAIRMAN. And under proper authority?

Mr. OAKES. Under proper authority; yes, sir.

The CHAIRMAN. Were the proper blanks furnished, and everything, for the inventories to be made?

Mr. OAKES. Proper forms were used.

The CHAIRMAN. Was it made in quick time?

Mr. OAKES. The first inventory, the plant property inventory, I think, was accomplished in about a month. The other one took possibly a little longer, six or eight weeks.

The CHAIRMAN. Who did the active work?

Mr. OAKES. The active work was conducted by a representative sent there by the Shipping Board, and the details were carried out by employees of the shipbuilding company.

The CHAIRMAN. Was any other inventory made down there?

Mr. OAKES. There was another inventory made subsequent to that time, but that was for the purpose of determining exactly if there had been any variations in the amount of materials on hand between the time this one was taken and the former; that is, when the plant was in operation.

The CHAIRMAN. This was at the Liberty plant?

Mr. OAKES. At the Liberty plant.

The CHAIRMAN. Was any inventory made at the plant of the Carolina Shipbuilding Co.?

Mr. OAKES. There was an inventory made at the Carolina Ship. yes, sir. That was conducted by Capt. Trowbridge, and the details were worked out by employees of the Carolina Shipbuilding Corporation.

The CHAIRMAN. Was that made under proper authority and in the usual way?

Mr. OAKES. I believe it was. I had no jurisdiction over that.

The CHAIRMAN. Do you know whether it was made in the usual time?

Mr. OAKES. It was made in the usual time and on a regular form; but, as I say, I had no jurisdiction over it.

The CHAIRMAN. Was it tied in with the plant property account, do you know?

Mr. OAKES. I heard that it was.

The CHAIRMAN. Do you know what the amount of that inventory was?

Mr. OAKES. No; I do not recall the figures. The Carolina plant, however, I think was about \$50,000 for plant property; that is, plant materials and supplies. Of course, there was a great quantity of ship materials there that did not enter into that particular inventory. There were two inventories, one for ship materials and one for plant materials and supplies.

The CHAIRMAN. Were they both made?

Mr. OAKES. Yes; they were both made.

The CHAIRMAN. Do you know whether that plant property was later sold?

Mr. OAKES. At the Carolina?

The CHAIRMAN. Yes.

Mr. OAKES. That was sold to the George A. Fuller Co., with the plant.

The CHAIRMAN. Do you know for how much?

Mr. OAKES. They sold the plant supplies and materials for 100 per cent.

The CHAIRMAN. \$50,000?

Mr. OAKES. That was the agreement. I do not know if it was ever accomplished, but I presume it was; I understand that was the contract.

The CHAIRMAN. Do you know whether the cash was paid?

Mr. OAKES. I do not.

The CHAIRMAN. How much were the ship supplies sold for?

Mr. OAKES. The ship materials. The original contract at the Carolina plant was for the construction of 12 vessels. I know this only from association and contact down there; I had nothing whatsoever to do with it. Their contract was reduced to eight vessels.

The George A. Fuller Co., in negotiating the contract to take over the plant with the Fleet Corporation, agreed to purchase the material for the remaining four ships, and construct them on their own account, and I understand that the material for these ships was sold to them at 50 per cent of the invoice cost.

The CHAIRMAN. Fifty per cent?

Mr. OAKES. Yes, sir.

The CHAIRMAN. Do you know who negotiated the purchase?

Mr. OAKES. I think Mr. Alonzo Dilks and Mr. G. Glass; I think his initial is G.

The CHAIRMAN. Are they officials of the Shipbuilding Corporation?

Mr. OAKES. Mr. Dilks was president of the Carolina Shipbuilding Corporation, and Mr. Glass was assistant secretary.

The CHAIRMAN. With whom did they deal on the Shipping Board or Fleet Corporation?

Mr. OAKES. So far as I know, Mr. Piez.

The CHAIRMAN. Mr. Piez; when was this?

Mr. OAKES. That was in 1919, about December. Their contract took effect, I think it was December, 1919.

The CHAIRMAN. Do you know what the amount of the inventory was, of the ship material?

Mr. OAKES. I do not, no; I had no way of knowing that.

The CHAIRMAN. But you understand that the plant property and material were sold at 100 per cent of its inventoried value?

Mr. OAKES. Yes, sir.

The CHAIRMAN. The ship material there, left in the yard as a result of cancellation of these contracts, was sold at 50 per cent of the value?

Mr. OAKES. That is my understanding. I never saw the contract.

The CHAIRMAN. Well, if that was so, was it not a pretty good bargain?

Mr. OAKES. A good bargain for the Carolina? Well, it depends upon how you look at that. If the Fleet Corporation were——

The CHAIRMAN. A pretty good bargain for the Fleet Corporation, to get rid of a lot of fabricated material?

Mr. OAKES. Very good, I should say.

The CHAIRMAN. At 50 per cent of its value?

Mr. OAKES. Very good.

The CHAIRMAN. Was there anything during your work as plant engineer there that you observed with reference to conditions which you attempted to have corrected and which you were unable to accomplish because of lack of cooperation on the part of anybody, or failure to accept your recommendations?

Mr. OAKES. I was operating first directly with the home office, the division of shipyard plants, and during the plant construction there was no lack of cooperation at all. There was some tendency on the part of the contractor at different times to construct a plant that was not called for in the plans and was not the intent and purpose, but those matters were properly taken care of, and recommendations for discontinuing such operations were made and carried out. That was only in slight instances, nothing very serious.

The CHAIRMAN. Do you know whether or not the allowance of this 50 per cent value of the ship material there may not have been part consideration on account of the cancellation of these contracts?

Mr. OAKES. It may have been, or it may not have been; I do not know anything about the details of it, Mr. Chairman.

The CHAIRMAN. If it was, there was nothing unusual about that, was there, Mr. Oakes?

Mr. OAKES. Why, I should not think so, because I believe that is a very good sale for the Shipping Board; to get rid of that surplus material, fabricated for ships, that would not be utilized for any other purposes except if they could find a buyer.

The CHAIRMAN. Did you make any appraisal of that plant?

Mr. OAKES. I did not.

The CHAIRMAN. As a going concern?

Mr. OAKES. I did not.

The CHAIRMAN. What is your position with the Shipping Board now?

Mr. OAKES. I am head of the sales and supply division of the New York office.

The CHAIRMAN. Head of the sales and supply division under whom?

Mr. OAKES. Mr. Leggren.

The CHAIRMAN. Are you selling material here?

Mr. OAKES. Just came on the 25th of October; yes.

The CHAIRMAN. Oh, I see; did you resign as plant engineer?

Mr. OAKES. I resigned as plant engineer on account of health. I was down in the southern district and I had to get out of there.

The CHAIRMAN. Did you appraise the Liberty plant?

Mr. OAKES. I appraised the Liberty plant; yes, sir; and my recollections are that it was about \$500,000.

The CHAIRMAN. Was that sold?

Mr. OAKES. That was sold to the city of Wilmington, I understand, after I left there.

The CHAIRMAN. For how much, do you know?

Mr. OAKES. From hearsay, \$37,500.

The CHAIRMAN. Were any of the contracts canceled?

Mr. OAKES. They canceled all of their contracts except two vessels.

The CHAIRMAN. Do you know whether or not any allowance was made to them on account of cancellation?

Mr. OAKES. Up to the time that I left there, so far as I know, there was no adjustment made, and I have not heard of any.

The CHAIRMAN. Did the Fleet Corporation own the entire plant?

Mr. OAKES. They owned the entire plant—property and buildings—everything pertaining to it. The property was deeded to the Shipping Board by negotiations through the Chamber of Commerce of Wilmington, acquired from individuals, and turned over in fee simple to the Shipping Board in its entirety.

The CHAIRMAN. That was a concrete yard, was it not?

Mr. OAKES. A concrete yard; a concrete shipyard.

The CHAIRMAN. The concrete ships, as constructed by the Shipping Board of course were more or less of an experiment, were they not?

Mr. OAKES. I would say that it was an experimental proposition; yes, sir.

The CHAIRMAN. This was an experimental yard?

Mr. OAKES. Decidedly.

The CHAIRMAN. And do you know whether the yard is being operated now?

Mr. OAKES. Only indirectly. I heard that the city of Wilmington acquired this property. They in turn leased it, I believe, to the Newport Shipbuilding Co., and I think that they are operating the yard.

The CHAIRMAN. Building concrete ships?

Mr. OAKES. Yes, sir; I only know this by letters—correspondence that I have had with friends of mine there.

The CHAIRMAN. Do you know what it cost the Fleet Corporation to make that site available for a shipyard?

Mr. OAKES. The cost of the plant, as I recall it, was about \$826,000, of which about \$105,000 was expended in dredging, filling the site, and preparing the slips. These boats were launched sidewise, and they had to have slips. There was about \$48,000 of that amount, I think, paid to Monks & Johnson, of Boston, who were architects and engineers, for furnishing the plans.

The cost of those plans was rather exorbitant, I think, but as I understand the arrangement, Monks & Johnson were engaged by Mr. Piez to prepare plans for some other plant; I think it was the Alameda plant.

The CHAIRMAN. Was there any bid received for that plant while you were there, Mr. Oakes?

Mr. OAKES. There were two offers, one from the Aladdin House Building Co.—the Aladdin Co.—who were locating at Wilmington, and they offered \$50,000 for half of the plant, comprising the best part of it, with the carpenter shop and the principal buildings; another offer was received, a verbal offer, from the Broadfoot Iron Works, for \$50,000 for the entire plant.

The CHAIRMAN. Did you recommend the acceptance of either of those bids?

Mr. OAKES. I recommended that they both be rejected.

The CHAIRMAN. You do not know how much the plant was really sold for eventually?

Mr. OAKES. Only through hearsay and newspaper reports.

The CHAIRMAN. Do you know how much that was?

Mr. OAKES. \$37,500.

The CHAIRMAN. Do you know how much the Carolina plant cost to build?

Mr. OAKES. It is very difficult to remember those figures, but, I think, approximately \$2,338,000.

The CHAIRMAN. And how much was that sold for?

Mr. OAKES. I do not know definitely, but from hearsay, \$500,000. I never saw the contract.

The CHAIRMAN. Well, assume that it was sold for \$500,000, a shipyard down there which the Government built and owned; they could not have expected to sell it for what it cost them, could they?

Mr. OAKES. Hardly.

The CHAIRMAN. Was that any undue loss, do you think, that they only got a quarter of what it cost?

Mr. OAKES. Well, it is entirely dependent upon the conditions and the future of Wilmington, and the prospects and possibilities of get-

ting some one else interested. It was a foregone conclusion that if the local people could buy that plant for a reasonable figure it would be continued as a going shipyard; the Fleet Corporation would then realize something of their investment. If their offer had been rejected, probably to-day that plant would have been a junk proposition, and very likely we could not have realized more than a small percentage of \$500,000 out of it. That would be my view.

The CHAIRMAN. Do you know whether these yards were properly equipped to be used as repair yards?

Mr. OAKES. They were not.

The CHAIRMAN. I think that is all, Mr. Oakes. Mr. Laggren.

TESTIMONY OF MR. ROBERT I. LAGGREN.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. What is your name?

Mr. LAGGREN. Robert I. Laggren.

The CHAIRMAN. Are you employed by the Shipping Board, or Fleet Corporation?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. In what capacity?

Mr. LAGGREN. Director of the supply and sales division for the eastern district.

The CHAIRMAN. Where is your office?

Mr. LAGGREN. In Philadelphia.

The CHAIRMAN. What does the eastern district comprise?

Mr. LAGGREN. At the present time it practically comprises everything east of the Rocky Mountains, with the exception of a small district in the South.

The CHAIRMAN. What district in the South.

Mr. LAGGREN. They call it the southern district. It is New Orleans and the surrounding territory, embracing the southern shipyards.

The CHAIRMAN. And over what property does your jurisdiction extend?

Mr. LAGGREN. All surplus property, certified to the Fleet Corporation as surplus and salvage, exclusive of ships.

The CHAIRMAN. How long have you held this position?

Mr. LAGGREN. Since October 1.

The CHAIRMAN. Were you with the Shipping Board prior to that?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. In what capacity?

Mr. LAGGREN. As secretary of the construction claims board.

The CHAIRMAN. How long had you held that position?

Mr. LAGGREN. I was made secretary in February, 1920. Prior to that I had been assistant secretary from July, 1919.

The CHAIRMAN. Were you with the fleet prior to that?

Mr. LAGGREN. No, sir.

The CHAIRMAN. You came in in July, 1919, as assistant to the construction claims board?

Mr. LAGGREN. Construction claims board, then known as the cancellation claims and contracts board.

The CHAIRMAN. And in February you were made secretary to that board?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. And in July of this year you were put at the head of the supply and sales division of the eastern district?

Mr. LAGGREN. No; in October of this year.

The CHAIRMAN. In October. Were you there while Mr. Weaver was on that board?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Is he still with the Shipping Board?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Where is he, do you know?

Mr. LAGGREN. No, sir. Do you mean where he is now?

The CHAIRMAN. Yes.

Mr. LAGGREN. No. I know that he is in Washington; that is his home, in Chevy Chase.

The CHAIRMAN. Is this Gen. Weaver?

Mr. LAGGREN. No, sir; this is H. H. Weaver.

The CHAIRMAN. Do you know whether he is associated with the Barde Co.?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. In some capacity?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. How long has he been with them?

Mr. LAGGREN. Well, not very long. I do not remember the exact date of his resignation from the construction claims board, but not very long ago.

The CHAIRMAN. Since you have been at the head of the supply and sales division?

Mr. LAGGREN. No, it was before that. Mr. Weaver resigned from the construction claims board, and then went to the Pacific coast. It was while he was gone that I was made director of the supply and sales division for the eastern department.

The CHAIRMAN. Do you know whether he obtained any official position with the Shipping Board after he became associated with the Barde Co.?

Mr. LAGGREN. I understand that he was requested by Admiral Benson to remain as special advisor to the board.

The CHAIRMAN. Upon what matters?

Mr. LAGGREN. Particularly steel.

The CHAIRMAN. Sales?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Purchases?

Mr. LAGGREN. I can not define myself any more accurately than that, except that Mr. Weaver was the steel expert on the board, and had come from the War Industries Board and knew steel in all its phases.

The CHAIRMAN. Well, what activities of the Shipping Board were being carried on, other than sales——

Mr. LAGGREN. That Mr. Weaver was interested in?

The CHAIRMAN. No, just a minute; what activities were carried on by the Shipping Board other than sales of steel which required an expert on steel?

Mr. LAGGREN. The settling of canceled contracts, and the making of adjustments with steel companies.

The CHAIRMAN. The settling of canceled contracts?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. What was the necessity for an expert on steel in those cases?

Mr. LAGGREN. In order that we might know whether the claims submitted by the steel companies were proper claims. It was necessary to have a man who knew the custom of the steel trade and the value of steel, so that a check-up could be made on salvage offers of the steel companies, when they offered to take over the surplus due to cancellations. That was one of the things. And in general, the board could hardly act on steel cases without knowing something about the steel business.

The CHAIRMAN. You mean that where a contract was canceled and there was a lot of steel on hand, it was necessary to have an expert for the Shipping Board to pass upon that steel to ascertain its quality and how much allowance should be made in the settlement of the canceled contracts?

Mr. LAGGREN. I think so, in a general way; yes, sir.

The CHAIRMAN. And Mr. Weaver was called in as the expert to pass upon that, you understand?

Mr. LAGGREN. I can not say as to that. He was there when I came there.

The CHAIRMAN. Well, you understood, you said, that he had been asked by Admiral Benson to act as the steel expert for the Shipping Board?

Mr. LAGGREN. No, sir; I do not think I made that statement. I believe I said that he had been asked to remain with the construction claims board as a sort of special adviser.

The CHAIRMAN. I see. Well, was he a steel expert?

Mr. LAGGREN. He was; he must have been.

The CHAIRMAN. And you understood that this special advice that he was to give was with reference to steel?

Mr. LAGGREN. Not only; no, sir.

The CHAIRMAN. What else?

Mr. LAGGREN. Everything.

The CHAIRMAN. Everything arising out of the cancellation of these contracts?

Mr. LAGGREN. We felt that we were able to call upon Mr. Weaver for any assistance that we might want, on any claims of any nature, due to his wide business experience.

The CHAIRMAN. Well, then, his knowledge and advice was not confined to steel?

Mr. LAGGREN. Not confined to steel; no, sir.

The CHAIRMAN. He would pass upon the quality of materials, would he, involved—

Mr. LAGGREN. No, sir; he would make no inspections.

The CHAIRMAN. Well, what would he do with relation to these canceled contracts? What was there; what knowledge did he have that required his retention, if any?

Mr. LAGGREN. I really do not know. I think you would have to go to Admiral Benson and ask him that.

The CHAIRMAN. Well, how would you know what knowledge Mr. Weaver had about cancellation of contracts?

Mr. LAGGREN. I know that he was on the cancellation claims and contracts board from—well, I do not know when he first began there—and that therefore he must have had a very intimate and thorough knowledge of canceled contracts.

The CHAIRMAN. Did you not say that he was a steel expert?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. How do you know that?

Mr. LAGGREN. Mr. Weaver was general manager, I believe, of the Cambria Steel Co.

The CHAIRMAN. But it is your information, Mr. Laggren, that after he became associated with the Barde Co. he remained in the capacity of special adviser to the cancellation claims board?

Mr. LAGGREN. I believe so; that is my information.

The CHAIRMAN. At the request of Admiral Benson?

Mr. LAGGREN. That is my information.

The CHAIRMAN. The cancellation of these contracts involved the disposition of quantities of material of various kinds, did it not?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Which later would be declared surplus?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. And pass into your jurisdiction?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. And the Barde Co. were seeking to purchase some of this material?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Which might previously have come under Mr. Weaver's jurisdiction as special adviser?

Mr. LAGGREN. As a member of the board. At that time he was a member of the board, with no more standing than any of the other members.

The CHAIRMAN. No; I am not talking of while he was a member of the board. He might previously, as special adviser, have been asked to pass upon—I do not say that he was, but he might have been asked to pass upon or classify some of this material which was later declared surplus and which subsequently the Barde Co. might wish to purchase?

Mr. LAGGREN. He might have; yes, sir.

The CHAIRMAN. Now, do you know of any instance of that?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Do you know whether Mr. Weaver was with the board when the question of interpretation of the Barde contract came up?

Mr. LAGGREN. He was; yes, sir.

The CHAIRMAN. How soon after that question was settled did Mr. Weaver become associated with the Barde Co.?

Mr. LAGGREN. I could not say. It may have been a month or so—two months, somewhere along in there.

The CHAIRMAN. Has there been very much change in the personnel of the supply and sales department during the past two years, if you know?

Mr. LAGGREN. I can not say during the past two years. I can only speak during the past two months.

The CHAIRMAN. Well, how about the last two months?

Mr. LAGGREN. There have been lots of changes in the past two months.

The CHAIRMAN. Men getting better positions in private employment?

Mr. LAGGREN. No, sir; I do not know of any cases of that kind.

The CHAIRMAN. What has been the reason of the changes?

Mr. LAGGREN. We have been cutting down our personnel with a view to retaining the efficient and weeding out the inefficient.

The CHAIRMAN. Well, you have found some inefficients in there?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. How much has the personnel been reduced since you have been there, Mr. Laggren?

Mr. LAGGREN. For the entire supply and sales division I can not say. Since October 9 I have cut \$95,000 off my pay roll.

The CHAIRMAN. Well, how many men would that represent?

Mr. LAGGREN. It would represent almost 50 employees; that is, clerks, stenographers, and men in executive capacities.

The CHAIRMAN. Of course, as material is disposed of, gradually the supply and sales organization will disappear, I suppose?

Mr. LAGGREN. It will; yes, sir.

The CHAIRMAN. Have you got any list or inventory from which you can tell the value of the material that has been declared surplus, which is under your jurisdiction for disposition?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. How much?

Mr. LAGGREN. I could not state. That is something that I will have to go into.

The CHAIRMAN. You mean you would have to prepare a list?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. You have not got, have you, a list or an inventory of all the property, its location and appraised value, which has been declared surplus, and which you are authorized to dispose of through sale or otherwise?

Mr. LAGGREN. Yes, sir. As to the exact accuracy I would not want to state, but we are attempting to keep it as accurately as possible. The moment anything comes to us as surplus we know where it is and what it is.

The CHAIRMAN. Yes. Now, is there any appraised value of it?

Mr. LAGGREN. Yes, sir; it does not come to us for sale until the appraisal has been put on it.

The CHAIRMAN. Who appraises it?

Mr. LAGGREN. Appraisal engineers.

The CHAIRMAN. Do you appraise it, your department?

Mr. LAGGREN. No, sir.

The CHAIRMAN. You are bound by the appraisal put on by the appraisal engineers?

Mr. LAGGREN. We are bound, absolutely.

The CHAIRMAN. Well, if you have a vast quantity of material to dispose of, which is just declared surplus and turned over to you, do you feel that you can dispose of it upon as advantageous terms to the Government, taking somebody's else appraisal, as you could if you had an appraisal board of your own competent to make it?

Mr. LAGGREN. Yes, sir; because the appraisal board is under the direct jurisdiction of the home office of the supply and sales division, under an appraisal engineer in charge of appraisals, who is in direct contact with the director of the supply and sales division, so that we get the proper kind of service on our appraisals. But the district directors are put in the position of having no authority over appraisal engineers, as to policy, so that no district director can influence appraisal engineers in making appraisals for sales purposes.

The CHAIRMAN. Then, these appraisers are independent, both of you and your department and the district?

Mr. LAGGREN. Well, I mean—my department is the district. And if you will ask me a few more questions I can show it clearly to you.

The CHAIRMAN. Whom do you mean by the district engineer?

Mr. LAGGREN. The district appraisal engineers?

The CHAIRMAN. Yes.

Mr. LAGGREN. Those are the men that do the work on the material in my district, but they are under the direction and supervision of the home office appraisal engineers. They are in my office, yet, as I say, under the home office appraisal engineers; I have them in New York and Philadelphia; they are right in my office.

The CHAIRMAN. Right in your office without you exercising any jurisdiction over them whenever they are making these appraisals?

Mr. LAGGREN. No; I have only administrative control.

The CHAIRMAN. And you can not raise objection to any question as to the values they fix?

Mr. LAGGREN. Yes; we can raise objection. We can raise questions and question their appraisal, but we have to do with the appraisal engineers at the home office in this way, that we say we think the appraisal engineers have appraised something so high that we can not use it.

The appraisal engineer may say this is our appraisal, and that is all that we can say to them, and we have to refer to the home office and say that we think that the appraisal engineer has made a mistake here.

The CHAIRMAN. Now, what do you base your conclusion that a mistake has been made on, simply upon your inability to sell it?

Mr. LAGGREN. Oh, no, sir.

The CHAIRMAN. Upon what?

Mr. LAGGREN. Upon conditions, class of material, location, and utility value.

The CHAIRMAN. How will you get all that information except by personal inspection?

Mr. LAGGREN. Well, we would not attempt to object to any appraisals unless we did have information that would give us some grounds.

The CHAIRMAN. How would you get it?

Mr. LAGGREN. Go and see the material, or send somebody to see it that knew the material.

The CHAIRMAN. Send somebody down there to inspect the material before the appraisal is made?

Mr. LAGGREN. No, sir; never.

The CHAIRMAN. After?

Mr. LAGGREN. Yes.

The CHAIRMAN. And then they would report to you or they would report that the appraisal was too high or was incorrect?

Mr. LAGGREN. They might; yes, sir.

The CHAIRMAN. How would they know?

Mr. LAGGREN. That is their business.

The CHAIRMAN. Would they be experts?

Mr. LAGGREN. Yes, sir; that is their business. They are supposed to be appraisal engineers that know material and keep up with the market.

The CHAIRMAN. They are the men that make the appraisals, aren't they?

Mr. LAGGREN. Yes, sir; these men are.

The CHAIRMAN. Now I am talking about the other people.

Mr. LAGGREN. Which other people?

The CHAIRMAN. How would you get the information that the appraisal was incorrect or too high?

Mr. LAGGREN. It might come from a number of sources; we might find it out.

The CHAIRMAN. Name one, two, or three of them.

Mr. LAGGREN. We might find out by an inspection of ours or we might find out through the construction division inspection.

The CHAIRMAN. Now, this inspection. Do you mean an inspection independent of the appraisal engineer?

Mr. LAGGREN. Ordinarily no, sir. Ordinarily we have to take what the appraisers give us. As I said before, I have no jurisdiction over them; I can not direct them; I can not tell them what to appraise at; I can not question their appraisals except in an offhand manner; I have no authority over them at all.

The CHAIRMAN. I know, but you say you do find circumstances or instances where you question an appraisal—that it is too high or that you think it is not right.

Mr. LAGGREN. Yes; or I might find it too low.

The CHAIRMAN. Find that it is too low?

Mr. LAGGREN. Yes.

The CHAIRMAN. Now, then, when you do that about what do you base that contention?

Mr. LAGGREN. That would probably be based upon past experience. You have to know these things. You have to know what the condition of the material is in, just what kind it is, what it is salable for, and what its salable value is.

The CHAIRMAN. The appraisers would have to know all that in order to make a proper appraisal?

Mr. LAGGREN. Yes, sir; that is correct; but no appraisal engineer is infallible.

The CHAIRMAN. No; I guess that is right. But what I am trying to ascertain, Mr. Laggren, is when the appraisal is made over which you have no control or directing authority, although the appraisal engineers are in your office, if you conclude that the appraisal is too low or too high or is incorrect in any particular, how do you ascertain that? Now, you may have previous knowledge of what other material of the same class has been sold for.

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. And the experience that you had had in handling this amount of property, you may base it on that?

Mr. LAGGREN. Yes.

The CHAIRMAN. Now, do you ever base it upon a personal inspection made by some of your force to go down and look at that property and see it and say why they have appraised this as new machinery when it is out of kilter and weather worn?

Mr. LAGGREN. Ordinarily, no; because that is not our duty, we can not do that, but if we take a party, a man to see the material, say one of our salesmen, who has been selling a line of this kind, and he has been out taking orders for this kind of material, and he takes a man down to look at it with the purpose of selling it to him, and to do that he will take along a certified copy of the appraisal, and he will look at the appraisal and see it says 100 per cent new, 100 per cent new, 100 per cent new, and after he has gone down there and looked at the machinery you come back and say, Mr. Laggren, somebody must have made a mistake in the appraisal, this appraisal calls for 100 per cent, 100 per cent, 100 per cent new, all the way through, and it is not new. That would be a basis for me to go to the appraisal engineers and says that my salesman who has come in and made this report says so and so, will you check it off, and see if he is right. This is as far as I can go with them on it. If he still comes back and says, "This is new material," I might send somebody else to look at it, and if I felt that there actually has been made a mistake in the appraisal I would ask the appraisal engineers to take it up with the home office.

The CHAIRMAN. Has there been instances where the appraisal has been rejected, so to speak, by the home office and a new appraisal ordered?

Mr. LAGGREN. I believe there have been new appraisals ordered.

The CHAIRMAN. There have been?

Mr. LAGGREN. I believe so.

The CHAIRMAN. As the result of your intercession?

Mr. LAGGREN. No, sir; not as a result of my intercession.

The CHAIRMAN. You recall the circumstances under which these new appraisals were made?

Mr. LAGGREN. No, sir; I am only saying that as a general statement, because I believe it must have been done.

The CHAIRMAN. Now, you were on the cancellation and claims board as secretary.

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. The cancellation of what kind of contracts did that mean, all kinds?

Mr. LAGGREN. All kinds of canceled contracts.

The CHAIRMAN. For construction?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Have you any other duties on that board other than of a secretarial nature?

Mr. LAGGREN. My duties—I was called secretary, but my duties were of an executive capacity. I directed the activities of the board, not in any authoritative capacity, but under the direction of the members of the board.

The CHAIRMAN. Who were the members of the board when you were made secretary?

Mr. LAGGREN. The personnel at the time I was made secretary—this is not when I came in, this is when I was made secretary.

The CHAIRMAN. No; I am asking who were on the board when you were made secretary?

Mr. LAGGREN. Mr. Talbert, Mr. Weaver, and Col. McGovern—ex-Gov. McGovern, of Wisconsin.

The CHAIRMAN. Is that the same Mr. Weaver of whom we have been previously speaking?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Was Mr. Dean ever a member of your board?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Did you have anything to do with the settlements of any contracts involving the construction of ships for Norwegian builders?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Did you have anything to do with the settlement of contracts involving the construction of ships for the Japanese?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Or for the French?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Or for the Italians?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Did you have anything to do with the settlement of the Merrill-Stevens contract?

Mr. LAGGREN. The board did; yes, sir.

The CHAIRMAN. Did you, too, participate in that?

Mr. LAGGREN. No, sir.

The CHAIRMAN. You did not.

Mr. LAGGREN. No, sir.

The CHAIRMAN. You did not have a vote on that board of any kind when a question came up?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Was there also a separate board known as the requisitions claims board?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Which settled claims for ships that had been requisitioned or commandeered?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. So that these construction contracts for these foreign matters would not come before your board anyhow?

Mr. LAGGREN. No, sir; we never dealt with any foreign contracts.

The CHAIRMAN. They would come before some other board?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Your office is in Philadelphia?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Would it be convenient for you to come back here Monday morning?

Mr. LAGGREN. I can come here if you call me; yes, sir.

The CHAIRMAN. We would like to have you. We can not finish with you to-day, Mr. Laggren.

The committee will adjourn, and it will resume at Exhibit Room No. 6, in the Pennsylvania Hotel, the committee being unable to continue in this room, and have been unable to secure other quarters in

this locality. We have procured a room in the Pennsylvania Hotel, which I understand is known as the Exhibit Room No. 6, and we will adjourn until 9.30 o'clock Monday morning, and I would ask you, if convenient, to be back at that time, Mr. Laggren.

Whereupon, at 12.30 o'clock p. m. the hearing adjourned to Monday, November 29, 1920, at 9.30 o'clock a. m. at the Hotel Pennsylvania, New York City.

SELECT COMMITTEE ON UNITED STATES
SHIPPING BOARD OPERATIONS,
HOUSE OF REPRESENTATIVES,
New York, November 29, 1920.

The committee met in Exhibit Room No. 6, Pennsylvania Hotel, at 9.30 o'clock a. m., Hon. Joseph Walsh (chairman), presiding.

Present, also, Hon. Patrick H. Kelley, member of committee.

The CHAIRMAN. The committee will resume, and we will first hear Mr. Hildreath.

TESTIMONY OF MR. SAMUEL MARVIN HILDREATH.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Please state your full name?

Mr. HILDREATH. Samuel Marvin Hildreath.

The CHAIRMAN. Where do you reside, Mr. Hildreath?

Mr. HILDREATH. Brooklyn.

The CHAIRMAN. What is your business?

Mr. HILDREATH. New York manager and vice president of the Belmont Packing & Rubber Co.

The CHAIRMAN. What material does your company manufacture and sell?

Mr. HILDREATH. Packing of all kinds.

The CHAIRMAN. For what?

Mr. HILDREATH. For steam, water, ammonia, etc.

The CHAIRMAN. Have you done business with the Shipping Board?

Mr. HILDREATH. A little.

The CHAIRMAN. With what ships, if you know, or with what districts?

Mr. HILDREATH. I could not tell you offhand.

The CHAIRMAN. What districts?

Mr. HILDREATH. New York.

The CHAIRMAN. Have you done business by submitting bids?

Mr. HILDREATH. No; what business we did was on regular orders; you might term them "emergency orders," I presume.

The CHAIRMAN. By whom?

Mr. HILDREATH. They were placed by the purchasing department.

The CHAIRMAN. Who was the purchasing officer?

Mr. HILDREATH. Mr. Wyman, I believe, at one time, and Mr. Lovett at another.

The CHAIRMAN. Have you had any difficulty in obtaining an opportunity to submit bids for your material?

Mr. HILDREATH. The last bid we submitted was thrown out because we were not on the approved list.

The CHAIRMAN. On the approved list?

Mr. HILDREATH. Yes.

The CHAIRMAN. Do you know why you were not on the approved list?

Mr. HILDREATH. We tried to find out, but could not do so.

The CHAIRMAN. Well, have you ever had any complaint from ships that have used your material as to its quality or its being defective, or anything of that sort?

Mr. HILDREATH. No, sir.

The CHAIRMAN. Have you furnished it to ships in private operation?

Mr. HILDREATH. Yes, sir.

The CHAIRMAN. And you have been doing so right along?

Mr. HILDREATH. Yes, sir.

The CHAIRMAN. Who did you ask why you were not on the approved list?

Mr. HILDREATH. When this last proposal came up, the proposal read that the packing must be approved by the construction and repair department, and we tried to find out where the construction and repair department was. We went down here to 45 Broadway, I believe it is, and down there I went into the matter of whether our materials were approved or not, and we could not seem to find out any head or tail to that department. One young man down there informed us we were on the approved list.

The CHAIRMAN. Down where?

Mr. HILDREATH. At 45 Broadway—I think that is the address; and after taking the matter up with him he said, “It is all right; you are on the approved list.” So we bid accordingly. And after the bids were opened, we received a letter from Washington stating that our bid was thrown out because we were not on the approved list. The letter is here [producing paper]. I believe you have seen that.

The CHAIRMAN. No, sir; I have not seen that. Well, were you the high bidder or low bidder or what?

Mr. HILDREATH. We were lower than the people who have the contract at the present time.

The CHAIRMAN. How much lower?

Mr. HILDREATH. I think about 20 or 25 per cent.

The CHAIRMAN. How large a quantity of this packing was involved?

Mr. HILDREATH. Well, there is really no amount stated there. You see, it was a yearly contract.

The CHAIRMAN. A yearly contract, this year?

Mr. HILDREATH. Yes, sir.

The CHAIRMAN. Could you make a bid without knowing how much you were going to furnish?

Mr. HILDREATH. Well, we did make a bid in that way; yes. I have the proposal with me, if you will allow me to look at it; if you will allow me to look at it, I will tell you whether the quantities are stated.

The CHAIRMAN. This is rubber packing?

Mr. HILDREATH. This is rubber packing, asbestos, flax packing, and other packing used by the various boats. This reads “For furnishing such quantities of the following packing”——

The CHAIRMAN (referring to proposal submitted by Mr. Hildreath to the committee). “Such quantities of the following packings as

may be required for the period of one year, for use by merchant ships, to be designated by the corporation." Had you received proposals similar to that before from the Shipping Board?

Mr. HILDREATH. I think there was one the year previous.

The CHAIRMAN. Did you bid on that?

Mr. HILDREATH. We did.

The CHAIRMAN. Do you know how your bid compared with that of others at that time?

Mr. HILDREATH. I think on some items we were lower than others.

The CHAIRMAN. Did you receive any awards?

Mr. HILDREATH. No; we did not.

The CHAIRMAN. Well, it is a customary thing, is it not, Mr. Hildreath, for a concern that submits a bid and is the low bidder and does not get the job or the award of the contract, to be disturbed or cross about it?

Mr. HILDREATH. In some cases; yes.

The CHAIRMAN. What is there about this transaction that you complain of?

Mr. HILDREATH. The only thing about this transaction that we complain of is that our bid was thrown out because we were not on the approved list, which they state here.

The CHAIRMAN. And you have not been able to get on the approved list?

Mr. HILDREATH. No; we have not.

The CHAIRMAN. How long has your concern been in business?

Mr. HILDREATH. Our concern has been in business some 25 years—not under the present name; about 5 years under the present name.

The CHAIRMAN. How many branches do you have?

Mr. HILDREATH. We have three branches.

The CHAIRMAN. Where are they located?

Mr. HILDREATH. Chicago, New York, and Philadelphia.

The CHAIRMAN. Can you give us any idea of how large your sales are, how well equipped, and how much of this product you produce and sell? Would you be able to take care of a big contract such as this proposal calls for?

Mr. HILDREATH. We take care of the Navy Department on their contract for large quantities of flax and other materials, and we are on the approved list of the Navy Department.

The CHAIRMAN. Do you take care of the Navy Department on rubber and asbestos packing?

Mr. HILDREATH. We have been on their annual contract, as a rule.

The CHAIRMAN. And you are on the Navy approved list?

Mr. HILDREATH. We are.

The CHAIRMAN. Do you know whether or not that may be the reason why you are not on the Shipping Board approved list?

Mr. HILDREATH. I should think if we were on the Navy Department approved list, we should be also on the Shipping Board approved list.

The CHAIRMAN. Have you ever had any difficulty with the Navy Department in not securing business when you have been the low bidder?

Mr. HILDREATH. Not to my knowledge.

The CHAIRMAN. You have, I see, correspondence there asking why you are not on the approved list or protesting. Have you ever written to the chairman of the Shipping Board for that information?

Mr. HILDREATH. We never have; no, sir. We took the steps through the purchasing department at Washington.

The CHAIRMAN. I understand all this correspondence is with the purchasing department?

Mr. HILDREATH. Yes.

The CHAIRMAN. But have you ever protested or written to anybody higher up?

Mr. HILDREATH. Not in this case; no, sir.

The CHAIRMAN. Well, in any other case?

Mr. HILDREATH. We did on a question some few years ago.

The CHAIRMAN. Did you get satisfaction?

Mr. HILDREATH. Well, the matter, I believe, was all investigated, and after we made our complaint, about one year, we got one order.

The CHAIRMAN. One order?

Mr. HILDREATH. Yes.

The CHAIRMAN. But that was not on a bid?

Mr. HILDREATH. That was not on a bid.

The CHAIRMAN. What do you understand the approved list to be, Mr. Hildreath?

Mr. HILDREATH. Of the Shipping Board?

The CHAIRMAN. Yes, sir.

Mr. HILDREATH. Nothing at all; we can not find any.

The CHAIRMAN. You have never received a copy of the approved list in order to know what firms are on it?

Mr. HILDREATH. We could not find out that there was any such thing.

The CHAIRMAN. Have you had any difficulty, you or any members of your firm, with any of the officials in the purchasing department here in New York?

Mr. HILDREATH. No, sir.

The CHAIRMAN. Have you had any difficulty or controversy with shipping captains of the Shipping Board vessels?

Mr. HILDREATH. We never did enough business with them to have any such experience.

The CHAIRMAN. I mean, with men who are now in command of Shipping Board vessels, who might previously have been in private employment on ships?

Mr. HILDREATH. Not that I know of.

The CHAIRMAN. You say that you submitted a low bid for the various quantities and qualities of packing and other material which your firm was ready to supply as part of proposals, and that your bid was rejected, and that the only reason and information you could get was that your concern was not upon the approved list?

Mr. HILDREATH. Yes, sir. I would qualify that—not on the entire contract.

The CHAIRMAN. Not low bid on the entire contract?

Mr. HILDREATH. Not on the entire contract—certain items at that time. You see, the contract was on items, you will notice. We were low on various items but not on the entire contract.

The CHAIRMAN. Do you know whether the firm that did receive the contract was on the approved list?

Mr. HILDREATH. We would not know, except that the bid was accepted by the Shipping Board, and the bidder must be on the approved list, according to their letter.

The CHAIRMAN. Who received the contract, do you know?

Mr. HILDREATH. The Anchor Packing Co. and the United States Rubber Co. The bid was split.

The CHAIRMAN. Oh, the bid was split?

Mr. HILDREATH. Yes, sir.

The CHAIRMAN. Were the items that were awarded to either of those companies included in this same proposal upon which your concern was lower bidder than either of them?

Mr. HILDREATH. Yes, sir.

Mr. KELLEY. It seems, as I recall the testimony, when somebody else was before the committee the other day, Mr. Hildreath, that it was claimed that accepted bids were from only those concerns which have had stores on the Gulf and on the Pacific as well as on the Atlantic coast. Was any such claim as that made to you?

Mr. HILDREATH. Well, no. I believe the Anchor Packing Co. have stores at various points; for instance, we have agents at various points where we would be able to take care of the packing required in the same manner; that is, the facilities for supplying the same as the Anchor Co., if we had received the contract.

Mr. KELLEY. And that information was in their possession, you think?

Mr. HILDREATH. In the possession of the Shipping Board?

Mr. KELLEY. Yes.

Mr. HILDREATH. Not that I know of, but in our bid we only bid for the ports of New York, Philadelphia, and Baltimore.

Mr. KELLEY. And the proposal covered those points?

Mr. HILDREATH. Various delivery points.

Mr. KELLEY. Might it not possibly be that they accepted the bid from some one who could supply the goods at all the points on both coasts?

Mr. HILDREATH. That may be possible. Our contention is that we should be on the approved list; that is what we are trying to get on, and which we did try to do 30 days prior to the bid. My man went down and tried to find out what that list was and could not find out anything.

Mr. KELLEY. Where do you make your deliveries to the Navy?

Mr. HILDREATH. Philadelphia and New York.

Mr. KELLEY. And not on the Pacific coast?

Mr. HILDREATH. We have shipped to the Pacific coast; in fact, we have shipped to navy yards, but those are direct shipments from the factory.

Mr. KELLEY. But you do supply the Navy on the Pacific coast?

Mr. HILDREATH. Yes, sir.

Mr. KELLEY. So that you could easily take care of the Shipping Board ships out there also?

Mr. HILDREATH. Yes, sir.

Mr. KELLEY. Probably at San Francisco, Seattle, and San Diego—you have not any stores out there?

Mr. HILDREATH. We have no stores there. We have what we call "a special agency" in those cities, which handle our goods exclusively, which under this case we would have worked through.

Mr. KELLEY. But you do not know whether or not in your communication with the Shipping Board officials that question ever came up?

Mr. HILDREATH. Not to my knowledge.

Mr. KELLEY. And whether they have the information or not?

Mr. HILDREATH. No; not to my knowledge.

The CHAIRMAN. Is there anything further about this matter, Mr. Hildreath, that you desire to bring to our attention, about which we have not inquired?

Mr. HILDREATH. Nothing, except if we knew where we stood when we bid on the next contract, that is all we are after; but we do not like to bid and be thrown out, because not approved. If they have any repair and construction department, which they claim, and will test our packing, we will be very much pleased to furnish them with all the packing they want to test, which we did with the Navy Department at Annapolis, at their testing staff there. Our materials were tested out by the Navy and put on their approved list, and we stand to do that with the Shipping Board, but we can not find any place to send our goods to.

The CHAIRMAN. You have not taken it up with the chairman of the board, have you?

Mr. HILDREATH. No, sir; we worked through their man at New York.

The CHAIRMAN. I know you worked through their man at New York, and you have not gotten anywhere. Why did you not take it up with the chairman of the board?

Mr. HILDREATH. Well, we supposed that the man directly in charge of such matters was the party to take it up with, and not to bother the man at the head of the board.

The CHAIRMAN. And you have not been able to find out and get any information, have you, from the man you did take it up with?

Mr. HILDREATH. Not so far.

The CHAIRMAN. Do you not think in a case like that that you ought to try higher up when you do not get anywhere at all?

Mr. HILDREATH. You see, we did not proceed that way because we were told by this party in the New York office that we were on the approved list.

The CHAIRMAN. Yes.

Mr. HILDREATH. And as soon as we were told that, we did not think it necessary to go any farther.

The CHAIRMAN. You found yourself in this situation, that you made a bid, having been informed you were on the approved list?

Mr. HILDREATH. Yes, sir.

The CHAIRMAN. That you were the low bidder on certain items?

Mr. HILDREATH. Yes, sir.

The CHAIRMAN. And you were then informed that you were not on the approved list, and that your bid was rejected?

Mr. HILDREATH. Yes, sir.

The CHAIRMAN. There is a letter in that first package there [indicating] from somebody at the Caswell Hotel. Who is that by?

Mr. HILDREATH. That is our Mr. Stringer, who is here, one of my men who was handling this business.

The CHAIRMAN. He was the man you sent down to look into this matter?

Mr. HILDREATH. Yes, sir.

The CHAIRMAN. And he is here ready to testify?

Mr. HILDREATH. Yes, sir.

Mr. KELLEY. Is it customary for the Government, so far as you know, in any transactions you have had with them—the Navy Department or any other Government agency—to open the bids before the specified day and tabulate them?

Mr. HILDREATH. Not that I know of.

Mr. KELLEY. Should not bids always be opened in the presence of the bidders if they are invited to be present?

Mr. HILDREATH. The procedure with the Navy Department is that if the bids are to be opened, we will say, at 2.30, we can go to the navy yard and be present when all those bids are opened right before us, and then the bids are read off, the different bidders.

Mr. KELLEY. Is there something in that letter from Mr. Stringer which indicated that the bids were opened a few days previously and tabulated?

Mr. HILDREATH. I think not. I think this letter was after the bids were opened, when I sent him down there to see how we stood on the bid.

Mr. KELLEY. It says, "Tabulating the bids now, and won't be ready until next week; could not get a copy of the bids, as they claim they were opened to the public the afternoon"—

Mr. HILDREATH (interposing). That must have been the date of the opening, then.

Mr. KELLEY. "And at present they are working on them." That meant the previous Monday or the following Monday?

Mr. HILDREATH. That meant the previous Monday to his call. He did not go to Washington until after the bids were opened.

Mr. KELLEY. And the public, on the previous Monday, when the bids were opened, were entitled to see them, so far as you know?

Mr. HILDREATH. I presume so.

Mr. KELLEY. I rather imagined from this letter that the bids were opened in advance.

Mr. HILDREATH. I do not think so.

The CHAIRMAN. Do you know whether, Mr. Hildreath, anybody from the Shipping Board or from the Emergency Fleet Corporation made any investigation of your concern at any time, visited your factory and your concern, or your plant, or conferred with you or your other officials as to the capacity of your factory and as to the quality of your goods?

Mr. HILDREATH. Not to my knowledge; no, sir.

The CHAIRMAN. Have you been asked to fill out any questionnaire blanks by anybody connected with the Shipping Board?

Mr. HILDREATH. No, sir.

The CHAIRMAN. So you are not able to say whether your not being upon the approved list was the result of some investigation made by some official or officer or employee of the Shipping Board?

Mr. HILDREATH. I do not know why we were not on there, as we were not, if you will note from their own letter.

The CHAIRMAN. I did not know but what there had been some men around to interview you prior to this time as to how many men you employed, and what your sales were, and where your plant was located?

Mr. HILDREATH. Not to my knowledge.

The CHAIRMAN. They would naturally see you, would they not?

Mr. HILDREATH. They might see me or they might go to our plant in Philadelphia.

The CHAIRMAN. Let us see: What position do you hold with the company?

Mr. HILDREATH. I am manager of the New York office and vice president of the company.

Mr. KELLEY. Were you in position to supply all the asbestos packing that would be required under those bids?

Mr. HILDREATH. We have our own asbestos plant, importing the material from Canada, crush the rock, and spin our own yarns, and are practically—there are only three packing companies that do that, and we are one of them. Therefore we are in a very good position to do it. We would be very glad to have you go down to our factory.

TESTIMONY OF MR. FRANK A. STRINGER, SALESMAN, BELMONT PACKING & RUBBER CO., NEW YORK.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. What is your name?

Mr. STRINGER. Frank A. Stringer.

The CHAIRMAN. What is your business?

Mr. STRINGER. Salesman of the Belmont Packing & Rubber Co.

The CHAIRMAN. Where do you reside, Mr. Stringer?

Mr. STRINGER. In New York City.

The CHAIRMAN. How long have you been employed by the Belmont Packing & Rubber Co.?

Mr. STRINGER. About two years and a half.

The CHAIRMAN. Do you recall looking into bids submitted by the Belmont Packing & Rubber Co.?

Mr. STRINGER. I do, sir.

The CHAIRMAN. For furnishing material to Shipping Board ships?

Mr. STRINGER. I do, sir.

The CHAIRMAN. What do you know about the transaction?

Mr. STRINGER. These bids arrived about two months before the opening of bids, and I investigated, first through their division of supply and construction down here at 45 Broadway, where I called to see a man by the name of Woodworth, and he advised me that nobody had been appointed for the approval of the packing. I went back again about the third day after that, and at that time saw the purchasing officer, Commander Woodworth, and he turned me over to Mr. Flitgard, and Flitgard turned me over to A. M. Brown, who is supposed to be passing on the packing. I saw Mr. Brown personally and put the proposition up to an approval and asked him whether it was necessary to send samples for approval and test, or what was necessary to get on the approved list. He claimed that he was the supply man and that they were well satisfied and that we were on the approved list, and that it was not necessary—

The CHAIRMAN (interposing). Who was he?

Mr. STRINGER. Assistant to Commander Woodworth, was all that I know, at 45 Broadway.

The CHAIRMAN. Who was Mr. Woodworth?

Mr. STRINGER. I understand he was manager down there—Commander Woodworth. He took my card at that time and put across the card "Approved" and handed it to the young lady across the desk and said, "Put that on the list," or "On the approved list," and all we did was to put in the bids. We put in the bids, and they came back "Rejected; not on the approved list."

I then again went down to investigate this and tried to find out what was the trouble, and at that time I found Mr. Brown had gone, that he was not there at 45 Broadway. I got in touch with Mr. Flitgard, and Mr. Flitgard turned me over to Mr. Smith, assistant inspector, and he turned me over to another young man, and I got to talking to him on the proposition. He said he could not understand it, that we should be on the approved list; and if not, Washington should have wired that; that they had wired him on four other people who were not on the approved list; and in the meantime, which must have been after the opening of the bids, I got in touch with these other companies for their approval, and they wired in return, and they replied they were on the approved list, but Belmont was not on this approved list. If we were not on the approved list, I do not see why they did not ask New York to get approval.

In the meantime there was another slip, asking us certain questions—where the goods were manufactured, etc. We never received that copy to fill out.

The CHAIRMAN. What were you doing down at Baltimore about it—anything?

Mr. STRINGER. Baltimore?

The CHAIRMAN. Yes.

Mr. STRINGER. I was not in Baltimore; no.

The CHAIRMAN. Where were you when you wrote that letter to Mr. Hildreath?

Mr. STRINGER. I was in Baltimore, but I was not in Baltimore on the Shipping Board. I went over to Washington and then back to Baltimore. I was down there in Baltimore on other business at the time.

The CHAIRMAN. You were down to Washington on other business?

Mr. STRINGER. No, sir; I was down to Baltimore on other business.

The CHAIRMAN. You went to Washington about the matter?

Mr. STRINGER. I went to Washington about this matter.

The CHAIRMAN. Who did you see down there?

Mr. STRINGER. I saw Mr. Eggleston, I think the name was.

The CHAIRMAN. Who was he?

Mr. STRINGER. He was supposed to be, so far as I know, packing expert; that was the title they gave me.

The CHAIRMAN. What did he tell you?

Mr. STRINGER. He told me that they were tabulating the bids at that time, and could not give me any information; that they would not be finished until the following week.

The CHAIRMAN. Had the bids been opened?

Mr. STRINGER. The bids had been opened.

The CHAIRMAN. Where?

Mr. STRINGER. At Washington; and as far as he knew we were on the approved list; that is all the information I could get at that time.

The CHAIRMAN. Hence the bids were awarded and you did not get the contract on these matters; have you endeavored to find out why you were not on the approved list?

Mr. STRINGER. Yes, sir; that is why I went down there before, after I got this letter; that is what I am telling you.

The CHAIRMAN. Who did you see down there?

Mr. STRINGER. Who did I see down there?

The CHAIRMAN. Yes.

Mr. STRINGER. I saw Flitgard, Smith, and this other assistant of Smith's.

The CHAIRMAN. All in the purchasing department?

Mr. STRINGER. No; in the repair and construction.

The CHAIRMAN. Could you find out why you were not on the approved list?

Mr. STRINGER. No, sir; so far as they are concerned, they thought we ought to be.

The CHAIRMAN. Did they tell you that?

Mr. STRINGER. That is what they told me; they could not understand it; they thought we ought to be on the approved list.

The CHAIRMAN. Did you ascertain who made out the approved list?

Mr. STRINGER. No; nobody knows down there who made it.

The CHAIRMAN. Do you mean that Flitgard or Eggleston or Mr. Smith—none of them knew who made out the approved list?

Mr. STRINGER. So far as I know, they do not know.

The CHAIRMAN. Did you ask them?

Mr. STRINGER. I asked them, sure.

The CHAIRMAN. And they told you they did not know?

Mr. STRINGER. They do not know who made it up; nobody else knew who made it up. Mr. Brown, so far as I could understand, was making it up.

The CHAIRMAN. Who was Mr. Brown?

Mr. STRINGER. The first man I saw down here at 45 Broadway; I do not know what happened to him.

The CHAIRMAN. Do you make sales to ships privately operated?

Mr. STRINGER. Yes, sir.

The CHAIRMAN. Have you had any controversies or difficulties with any of the officials of the Shipping Board, outside of this matter?

Mr. STRINGER. The only difficulty I had was lack of information, which I can not get from anybody.

The CHAIRMAN. Prior to this incident?

Mr. STRINGER. The same thing.

The CHAIRMAN. You could not get any information?

Mr. STRINGER. No; I could not.

The CHAIRMAN. And, as I understand you, the bid which your concern submitted was the low bid on various items which your company was prepared to furnish at the prices submitted, of the quality required, and the only information you could get as to the rejection of your proposal was that your company was not upon the approved list, and you have never been able to ascertain why you were not on the approved list, or by whom this approved list was made up?

Mr. STRINGER. Correct.

The CHAIRMAN. Have you ever tried to find out from anybody else?

Mr. STRINGER. Not in this particular one; I have before. Once before when they came in here and threw out some of our bids. I will give you an instance of it: The previous bids used to come in asking for flax, particularly on Navy specifications, and we had at one time the Navy contract for Navy specification flax. When the next bid came up, I believe, we were around 70 and some cents per pound.

We had bid on Navy specification flax, putting all the bids in there. We knew that so-called flax was selling at 30 cents a pound. We put a bid in for the same packing, and bid on Navy specifications according to contract. They threw out our bid on the Navy contract price, saying we were out of line, and awarded the contract on the 30-cent price. We put in a 30-cent price, what we could furnish at 30 cents, and we tried to find out whether they were going to live up to their Navy specifications contract. They said as long as they did not get any kicks on board boats the flax was all right.

The CHAIRMAN. Then, it is not always the concern that submits the low bid that gets the contract, even with the Government?

Mr. STRINGER. No, sir; that was just one instance.

Mr. KELLEY. Your complaint, in addition to not being on the list, is that sometimes they accepted a quality of material below specifications?

Mr. STRINGER. Absolutely; in other words, they asked for one thing and then took something else. We bid according to their specifications.

Mr. KELLEY. Your bid was put in according to specifications, and they accepted a cheaper material from some other firm?

Mr. STRINGER. That is the idea.

Mr. KELLEY. So that really you did not bid on the material which they accepted at all?

Mr. STRINGER. Correct.

Mr. KELLEY. Did that happen more than once in your experience?

Mr. STRINGER. Twice that I know of.

Mr. KELLEY. For what other material, besides the flax?

Mr. STRINGER. That is the only one I can trace. The other material is hard to trace, but on that particular item you can check it.

Mr. KELLEY. These specifications were written specifications, were they, on which you bid?

Mr. STRINGER. They were written specifications on which we bid, saying that it must be Navy specifications material.

Mr. KELLEY. And you never could find out who was responsible for that?

Mr. STRINGER. No; it was always a case of going down there and being passed around from one man to another.

Mr. KELLEY. Did you have an opportunity to examine the bid of the successful bidder to see whether he indicated the kind of material he was bidding on?

Mr. STRINGER. He did not indicate; he just put his price after the item, and that is all there is to it.

Mr. KELLEY. And it was down at 30 cents, in the case of flax?

Mr. STRINGER. One time, and then at 36 cents at another, if I remember offhand.

Mr. KELLEY. Whereas the flax, according to Navy specifications, could not be had for less than how much?

Mr. STRINGER. Around 70 cents. I am just speaking offhand, because it was within two months they accepted that contract that the Navy had another award at which we were higher bidders. We did not get it, and the price was somewhere around 70 cents. We figured that if the Navy was going to pay 70 cents, the Shipping Board could not buy it for 36.

Mr. KELLEY. You do not know exactly who would be responsible for accepting inferior material or substituted material?

Mr. STRINGER. The only one who could be responsible, I should think, would be the inspectors. It must be passed by the Shipping Board inspectors before it goes on boat. Who their inspectors are, I do not know—because that is the way they handle it.

Mr. KELLEY. Would this run into considerable of an order for all the ships?

Mr. STRINGER. It would; in a year it would run into quite a quantity.

Mr. KELLEY. Can you give an estimate on the ships out of the port of New York that belong to the Shipping Board?

Mr. STRINGER. No; I could not, because one ship might take \$200 worth and another ship might use any amount, depending on how they went out and what happened to them.

The CHAIRMAN. And this stuff has to pass the inspection of Lloyds or the American Bureau, does it not?

Mr. STRINGER. I do not know that it does as to Shipping Board boats.

The CHAIRMAN. You do not know as to that?

Mr. STRINGER. No, sir.

TESTIMONY OF MR. WILLIAM E. CASH.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. What is your full name?

Mr. CASH. William E. Cash.

The CHAIRMAN. Where do you reside, Mr. Cash?

Mr. CASH. New York—Brooklyn.

The CHAIRMAN. What part?

Mr. CASH. Flatbush, 1609 Beverly Road.

The CHAIRMAN. What is your occupation?

Mr. CASH. I am in business with the firm of Cash & McKee, copper store fronts.

The CHAIRMAN. Were you employed with the Shipping Board at one time?

Mr. CASH. Yes, sir; from the latter part of 1918, to September 15, 1919. I left a little over a year ago.

The CHAIRMAN. What capacity were you employed in?

Mr. CASH. I was traveling auditor, with jurisdiction over districts Nos. 1, 2, and 3; that is, Boston, New York, and Philadelphia.

The CHAIRMAN. What did you audit?

Mr. CASH. I did very little auditing; I was a representative, practically, of Gordon Wilson, the general auditor in the Fleet, looking after the personnel of the different offices, doing that work in harmony with him and reporting to him.

The CHAIRMAN. Did you examine books of account in the yards?

Mr. CASH. No; I did very little of that.

The CHAIRMAN. You audited what districts?

Mr. CASH. Nos. 1, 2, and 3—Boston, New York, and Philadelphia—Strong in Boston, Mann in New York, and Overend in Baltimore.

The CHAIRMAN. When did you say you terminated your employment?

Mr. CASH. September 15, 1919.

The CHAIRMAN. Mr. Strong was in Boston?

Mr. CASH. Strong was district auditor in Boston; John F. Overend, in Baltimore; and Mr. Mann, in New York, who was finally superseded by a man named Levish.

The CHAIRMAN. With reference to conditions in Boston, did you find anything particularly up there that you had to report or which had to be corrected?

Mr. CASH. Mr. Strong was a very competent man, a C. P. A., I believe.

I do not think there was any particular fault to find, except possibly two or three of our own employees that I found, for instance, the resident auditors, that had been selling materials and things of that kind, two or three of them, doing work on the housing projects, or were guilty of indiscretion, to say the least.

The CHAIRMAN. Will you state what you found with reference to those employees?

Mr. CASH. Well, there was a man named Bohanon, I think it was, resident auditor in the housing projects in Bath. He had been selling materials and putting the money in his pocket to the extent of a couple of thousand dollars.

The CHAIRMAN. Was there any refund?

Mr. CASH. Yes; I believe the refund was made. He was indicted and jumped his bail, I believe, was the last report I heard of him; but we got the money back.

There was the Woodill case, at Portsmouth, N. H. He had been selling materials that belonged to the fleet, and I went there with a representative of the department of investigation, and we finally collected the money from him. I took an automobile and sold it, and we got the proceeds of that, which amounted to about \$2,000; that was squared.

The CHAIRMAN. That was squared up?

Mr. CASH. That was squared up.

The CHAIRMAN. And he was discharged?

Mr. CASH. He was discharged, of course; yes, sir.

The CHAIRMAN. And that put an end to that?

Mr. CASH. That put an end to that. It took me a week to two's time to chase it out, etc.

The CHAIRMAN. Was there any other case in that district—

Mr. CASH. Why, no; not in that district, that I remember of.

The CHAIRMAN. Were you the traveling auditor for that district when the Groton Iron Works was put in the hands of a receiver?

Mr. CASH. Yes; I was.

The CHAIRMAN. Did you have anything to do with looking into that?

Mr. CASH. I was present at two or three of the conferences. Mr. Conlin and Mr. Strong—Conlin was district officer of steel ships in Boston, and afterwards brought on to New York—under Mr. Magor.

The CHAIRMAN. All you did was attend some conferences?

Mr. CASH. Attend the conferences, yes; and reported the results and the proceedings to Mr. Wilson and Bender, the comptroller.

The CHAIRMAN. Did you know at the time, or did you make any investigation to ascertain, in how many instances the Groton Iron Works had been put into the hands of a receiver?

Mr. CASH. No; I did not.

The CHAIRMAN. They were put into the hands of the receiver in the Connecticut State court, were they not?

Mr. CASH. I believe they were; yes. They had the steel ships; and then they had one at Noank, a wooden-ship plant.

The CHAIRMAN. You were not asked by Mr. Strong to make any particular investigation in that matter, were you?

Mr. CASH. Mr. Strong would hardly ask me, because I had practically jurisdiction over him. I was from the home office, independent of him. But if I thought there was anything going wrong or got wind of anything, why, I would go to Mr. Strong and get Strong and some of the men from his office; and I very often would go to the Shipping Board; for instance, in cases of padded pay rolls or things of that kind. If we were suspicious that anything was going wrong in the Shipping Board, if it was within our districts, I would go to Strong's office and I would get an assignment of two or three men, go with them and start them on the work, and go away to some other yard. Their report would be made out by them to Mr. Strong and be by me O. K'd and then sent to the home office. All those were matters of record; each individual case is written out in detail and filed.

The CHAIRMAN. Did you have occasion to look into the sales of any material up there by the Shipping Board or to the Shipping Board?

Mr. CASH. No, sir; excepting, as I said before, where the resident auditors would sell it and then put the money in their pockets, and then I had a good deal to do with it.

The CHAIRMAN. Mr. Gordon Wilson was your superior?

Mr. CASH. Yes, sir.

The CHAIRMAN. To whom you reported?

Mr. CASH. Yes, sir.

The CHAIRMAN. Did you ever look into the sale of the steamer *Lerington* to the Shipping Board?

Mr. CASH. No, sir.

The CHAIRMAN. Did you look into transactions of the Flitner-Atwood Co., at Boston?

Mr. CASH. No, sir.

The CHAIRMAN. Did you ever investigate any of the matters at Boston which came under the jurisdiction of Capt. Crowley?

Mr. CASH. No, sir.

The CHAIRMAN. Or were there any instances of padded pay rolls in the Boston district which you looked into, that you recall?

Mr. CASH. I do not recall any just at present, although I think very likely there must have been two or three of them. We found that a pretty general condition when we would go after it.

I remember in Newburgh, the investigation we made there, where we found one man's name, for instance, in three or four different

places, and working 40 or 50 hours' total, which would have been an impossibility. There were, I suppose, a half dozen cases of that. He had an Italian name, and we found the man, but he got away. There was a good deal of that. I think you could go to almost any of the shipyards and find irregularities in their purchase.

The CHAIRMAN. In the emergency and great rush, men in shipyards would be carried upon pay rolls under the same name, with variations, or under different names, collecting more pay than was due them?

Mr. CASH. Yes, sir.

The CHAIRMAN. Do you recall any instances which you investigated, Mr. Cash, in which restitution was secured?

Mr. CASH. Why, I think in almost every instance in which errors were discovered they were corrected; if they did not, we kept after them, of course.

The CHAIRMAN. Where is the Newburgh yard?

Mr. CASH. At Newburgh, N. Y. One of the first things we looked for in an investigation of that kind would be of unclaimed wages. Unclaimed wages were supposed, according to the rule, to be in envelopes in the safe. They were retained 30 days in the shipyard; and if not called for, they should have been deposited in an account in the bank, and all unclaimed wages put in there. Many of the shipyards do that—some did and some did not. We would find a matter of \$600 or \$1,000 or \$2,000 in envelopes in the safe, called unclaimed wages.

The CHAIRMAN. There was nothing improper about that, was there?

Mr. CASH. There was nothing improper about that, I presume; no. Then we would check those names to see if they appeared two or three places, as to why left over; or may be they had received pay in one department, for instance, would employ a Mr. Church as working on ships when he was actually working on plants, putting up fences around somewhere, you know.

The CHAIRMAN. Did you investigate any other irregularities or practices which you felt justified in looking into, in the Boston district?

Mr. CASH. No; I think not.

The CHAIRMAN. Did you find any instances of improper charges for materials?

Mr. CASH. Are you referring to the Boston office now?

The CHAIRMAN. Yes, sir.

Mr. CASH. No; I do not remember of anything. Mr. Strong, the district auditor, if there was anything of that kind, would know, of course.

The CHAIRMAN. Coming to the next district——

Mr. CASH. One, New York.

The CHAIRMAN. Yes, sir. Did you find cases of padded pay rolls there?

Mr. CASH. Why, this Newburgh was in the New York district. There were several investigations, some that I did not take any part in; some that I did. I think the Downey yard, we had special auditors there for two or three months, I imagine.

The CHAIRMAN. Were they under your direction?

Mr. CASH. No; not under my direction, but under Mr. Dietz or Mr. Mann, and I would know what was going on, of course, keep watch of it in the New York office.

The CHAIRMAN. What was the necessity for these special auditors at the Downey yards, what was the condition that was being looked into?

Mr. CASH. Well, I presume it was pay rolls.

The CHAIRMAN. Do you know what was found?

Mr. CASH. And material, perhaps, that should have gone into ships, that went into plants, and vice versa; a general auditing and checking of the accounts. I believe, as I remember, there was some question about the resident auditor that was there at the time being a little friendly with Mr. Downey instead of the fleet.

The CHAIRMAN. There was nothing particularly wrong about the resident auditor or any other representative of the Shipping Board, being friendly to shipbuilders?

Mr. CASH. Oh, no.

The CHAIRMAN. Do you know what was found as a result of this investigation there?

Mr. CASH. I do not think it was finished when I left the service.

The CHAIRMAN. Last September?

Mr. CASH. Yes, sir; year ago September.

The CHAIRMAN. A year ago in September?

Mr. CASH. A year ago in September; yes, sir.

The CHAIRMAN. Did your duties comprise looking into defective work?

Mr. CASH. No, sir.

The CHAIRMAN. That was an inspection matter, I assume?

Mr. CASH. Yes; the department of construction, wood ships and steel ships.

The CHAIRMAN. How did the accounting department secure information, assuming that defective work was done, so that they would not pay the bills? Assume that in a particular yard the inspectors reported defective riveting or defective material, how would that information come up to the auditor or the comptroller so that that bill would not be paid?

Mr. CASH. I don't believe it came up.

The CHAIRMAN. You don't think it came up?

Mr. CASH. No, sir; I don't think they were working in as close touch as that, in the majority of cases.

The CHAIRMAN. Do you mean to say that in the majority of cases, where inspectors found defective work or defective material, there was no system by which the auditor might be prevented from paying for that, assuming that the bill or charge came in for proper material or proper work?

Mr. CASH. Theoretically that information should have gone to the resident auditor on the job at the shipyards. The resident auditor, in a good many instances, had very little help, perhaps one or two assistants, and he could not keep track of, and most of them did not attempt to keep track of, the ship construction end of it, the riveting, or the carpenter's work, or when material was issued on requisition to go on the ships, I do not think one in a dozen followed the material on to the ship, to make sure it went into the ship. It may have been

delivered on board ship, but whether it was actually installed or not I do not think the auditing division ever knew.

The CHAIRMAN. Some divisions knew, did they not? You do not mean to say that material would be delivered to a shipyard for a ship—

Mr. CASH. I mean from the warehouse in the shipyards, from the warehouse in the shipyards there. The material in the first instance would go in the warehouse in the shipyards. Now, then, it would be issued on requisition from that warehouse to the ship, so many rivets, so many this, that, or the other.

The CHAIRMAN. And there was nobody, inspectors, or auditors—

Mr. CASH. There were inspectors on the boats; yes.

The CHAIRMAN. Would they not know whether the material requisitioned from the warehouse went on the boats?

Mr. CASH. I say the auditing division would not know whether it went on or not.

The CHAIRMAN. That is what I am trying to get at, Mr. Cash. Would not the auditor or the comptroller or the financial officer who paid bills have some reports somewhere at some time before the claim was paid, which would show that the material furnished had been used, and that proper material had been used, and that the proper workmanship had been performed, and that the bill was proper to be paid, in accordance with the specifications?

Mr. CASH. What I intended to say was this, that the material from the warehouse would be issued on a requisition; the requisition would be signed and the material delivered, and the material carried on board ship. Now, whether that actually used and fastened to that ship, made a part of it, I never have seen any connection where they could check that part of it; no, sir.

The CHAIRMAN. That is from the auditing viewpoint?

Mr. CASH. From my experience; yes, sir.

The CHAIRMAN. The inspectors employed were under the construction division, of course?

Mr. CASH. Yes, sir; of steel ships or wooden ships, as the case may be.

The CHAIRMAN. Yes; and they were supposed to inspect the work as it progressed?

Mr. CASH. That is true; yes, sir.

The CHAIRMAN. If they signed reports to their chief inspector, and went up to the head of the construction department, they might well have gone from the construction department to the auditor or the general comptroller?

Mr. CASH. Yes. Well, the auditing division would not pay, of course, unless the steel ships or wood ships had O. K'd the voucher first—their representative, as being on this ship.

The CHAIRMAN. Surely. So that as far as the material and the ship being constructed—

Mr. CASH. The auditing division would take the signature of the wood-ship division or the steel-ship division; but I mean the auditing division never followed up to make sure whether the stuff was installed or not.

The CHAIRMAN. Outside of the Newburgh plant and the Downey plant, do you recall any other instances in the New York district?

Mr. CASH. Why, not offhand, although if I had had a little more time I could probably have gone through my reports and records. I have one case that I was thinking of—the Rheinhardt case—in the Morse yard.

The CHAIRMAN. What was that? I think we have heard of that before, but we would be very glad to have your recollection as to it.

Mr. CASH. Why, he was the resident auditor in the Virginia Shipbuilding Corporation, the Morse yard, under Overend, district auditor, in Baltimore, now comptroller, I believe. He had been approving bills for materials supposed to go in ships, for instance, 16 or 18 cars of lumber, I have in mind, that were O. K'd as being for ship construction and that went through the yard and out to Rosemont for a housing development out there, and later on some four or five of the cars, as I remember it, were sold to lumber dealers and the balance of the lumber went into the houses. Oh, I imagine there were 40 or 50 vouchers of that kind.

The CHAIRMAN. Those were caught, however, going through, were they not?

Mr. CASH. Yes, sir; and there is quite a long record of that in the department of investigation. I was in a position where I could read all the reports of the department of investigation before I started out and all our reports, and a little of that I know from my own eyesight of seeing and a little I have gathered from the reports rendered Meehan and Cosgrove.

The CHAIRMAN. The sum total of all that was that between the department of investigation and the auditing department this matter was discovered and traced out, and Mr. Rheinhardt confessed?

Mr. CASH. Yes, sir.

The CHAIRMAN. And the vouchers were caught going through?

Mr. CASH. Yes, sir.

The CHAIRMAN. Can you recall any other instance, Mr. Cash?

Mr. CASH. Not offhand; no sir.

The CHAIRMAN. Do you know, from your experience and investigation, whether pay rolls were required to be signed by the employees at these various yards?

Mr. CASH. Not all the yards signed pay rolls; no. They would sign the cards, a pay-roll card, maybe. But do you mean a general pay roll?

The CHAIRMAN. Yes,

Mr. CASH. No; I do not think that was customary in all yards.

The CHAIRMAN. Do you know of any yards in the districts which were under your observation where payment was made for services without the signature of the employee or the person to whom it was paid being required, either upon a card or upon a pay roll or upon some receipt for it?

Mr. CASH. No; they were all signed on some—not necessarily on a pay roll. Some worked with a brass check, and from the number; they would present it, and they would sign their names on a card; some that could not write would put their cross, and the foreman would say, "John Jones, his mark," and "attested by the foreman," or something of that kind; but they all, as I remember, signed something.

The CHAIRMAN. At the time of the payment?

Mr. CASH. At the pay window; yes.

The CHAIRMAN. Did you investigate any matters involving the payment of commissions or attempts to bribe any Shipping Board officers?

Mr. CASH. No, sir. May I say, the first 66 pages of that report, I know, are on division of operations, which I had nothing to do with, you know. They had a system of their own, and I never ran across them.

The CHAIRMAN. Did you investigate matters involving settlements of contracts?

Mr. CASH. No.

The CHAIRMAN. Involving the title to shipyards?

Mr. CASH. No.

The CHAIRMAN. Changes and modifications in contracts?

Mr. CASH. No.

The CHAIRMAN. How about employees of the Shipping Board being on the pay roll of the ship builder; did you find any instance of that?

Mr. CASH. Yes; Rheinhart was, for instance, down in Alexandria.

The CHAIRMAN. Alexandria?

Mr. CASH. Virginia; yes; the Morse yard.

The CHAIRMAN. That was the Virginia shipbuilding plant?

Mr. CASH. The Virginia Shipbuilding Corporation; yes, sir.

The CHAIRMAN. And the housing plant was at Rosemont?

Mr. CASH. Rosemont; yes, sir.

The CHAIRMAN. But the two were independent?

Mr. CASH. Independent; miles apart.

The CHAIRMAN. There was no contractual relations between the Shipping Board and the housing project?

Mr. CASH. No.

The CHAIRMAN. Did you find any other instance?

Mr. CASH. No; I do not recall any to mind. You mean where an employee of the Emergency Fleet Corporation was also on the pay roll of the builder?

The CHAIRMAN. Yes.

Mr. CASH. No, sir; I do not.

The CHAIRMAN. Timekeepers or inspectors?

Mr. CASH. No, sir. If I had found one of those I would report it immediately, and he would have gone, I know.

The CHAIRMAN. That was the practice, was it not, when these things were reported?

Mr. CASH. Yes, sir. There was action immediately.

The CHAIRMAN. There was action taken immediately?

Mr. CASH. Yes, sir.

The CHAIRMAN. Men were dismissed, and if there was money due the Government it was recovered, or an attempt was made to recover it?

Mr. CASH. It was recovered; yes, sir. That was part of my duties.

The CHAIRMAN. And how much was involved in the Newburgh case?

Mr. CASH. Oh, that was a figure, I imagine, of only \$1,000 or \$2,000, something like that. I don't remember the exact figures.

The CHAIRMAN. And you sold an automobile belonging to him?

Mr. CASH. That was up in Portsmouth.

The CHAIRMAN. How much was involved in the Portsmouth case?

Mr. CASH. I think, as I remember, \$2,300 or \$2,400, that he had taken.

The CHAIRMAN. Did you have to look into the matter of the sale of any material?

Mr. CASH. Only in such cases as that kind, where the auditor had sold it. I never had anything to do with surplus sales.

The CHAIRMAN. I mean salvaged material?

Mr. CASH. Well, surplus and salvage, no; that came on just about the time I left there, you know.

The CHAIRMAN. Are there any other matters that came under your observation while you held this position?

Mr. CASH. Nothing that I remember that would be of interest to you.

The CHAIRMAN. Have you any questions, Mr. Kelley?

Mr. KELLEY. I think you said you were a certified accountant, Mr. Cash?

Mr. CASH. No, sir; I did not.

Mr. KELLEY. What did you say?

Mr. CASH. I did not say anything about my being certified.

Mr. KELLEY. There was something about C. P. A.

Mr. CASH. C. P. A., Mr. George J. Strong.

Mr. KELLEY. Oh, Strong was a certified accountant?

Mr. CASH. Yes, sir.

Mr. KELLEY. But you are not?

Mr. CASH. No, sir.

Mr. KELLEY. What sort of an accountant are you; how much experience have you had in public accounting?

Mr. CASH. Well, my accounting experience, Mr. Kelley, I never worked at it as a profession, but I have been in five of the large expositions of the country, beginning with the World's Fair in Chicago, and devised and prescribed the methods of accounting for collection of the revenue from the concessionaires; for instance, the Pan American Exposition, I had that position as chief of admissions and concessions. I had under each contract probably four or five or six hundred employees, and drew up the blanks and the forms and books, and so forth, hired employees, and checked.

You see, in all expositions where anything is sold, they pay a certain percentage of the gross receipts for the privilege of selling, and it was a pretty hard matter to devise a system that would get your 25 per cent on the gross, on the restaurants, for instance, and things of that kind.

Mr. KELLEY. Well, now, would you be competent to install a system of bookkeeping in a shipbuilding plant, where the Government was advancing money and supplying material, so as to protect the Government from all the various kinds of——

Mr. CASH. Chicanery?

Mr. KELLEY. Fraud which might be practiced?

Mr. CASH. I think I would not attempt it; no, sir.

Mr. KELLEY. You would not attempt it?

Mr. CASH. No, sir.

Mr. KELLEY. Then you are testifying only to what you found as a result of some other person's system?

Mr. CASH. Yes, sir.

Mr. KELLEY. You did not have anything to do with any of these bookkeeping systems in any shipyard?

Mr. CASH. With the installing of the system? No, sir.

Mr. KELLEY. But you knew enough about accounting to know that a thing was not working properly; is that right?

Mr. CASH. In a good many instances; yes, sir.

Mr. KELLEY. Do you know anything about the requirements of the Treasury Department at Washington, as to auditing?

Mr. CASH. I think not; no, sir.

Mr. KELLEY. Was there any attempt to install the Treasury Department regulations in the Shipping Board business, as far as you know?

Mr. CASH. Not that I know of; no, sir.

Mr. KELLEY. Would you be surprised if \$1,500,000,000 worth of accounts were rejected by the Treasury Department because they were not properly vouchered?

Mr. CASH. Do you mean in the full, in the Emergency Fleet Corporation, do you mean?

Mr. KELLEY. Yes; in the Emergency Fleet Corporation, \$1,500,000,000 rejected, because they were not properly supported by the rules of the Treasury Department.

Mr. CASH. That is rather more than I should think they would be; yes, sir.

Mr. KELLEY. You would be surprised at that amount?

Mr. CASH. I would be surprised at that amount; yes, sir.

Mr. KELLEY. How should a voucher be supported to be paid by any Government agency; what supporting proofs should be required? Or are you not enough of an accountant to answer that?

Mr. CASH. Well, I don't know. Ask the question again, please, will you?

Mr. KELLEY. What supporting proofs should a voucher have before it should be paid or passed by the Government?

Mr. CASH. Well, you mean in the Emergency Fleet Corporation?

Mr. KELLEY. Yes; any voucher. Here is the Government checking over the business of any activity of the Government, what supporting proof should any voucher have to convince the Government that that is a proper charge against it?

Mr. CASH. In the Emergency Fleet Corporation the resident auditor signed it first—

Mr. KELLEY. That is just the signature of somebody, that is all?

Mr. CASH. Oh, a signature, yes.

Mr. KELLEY. That it is O. K.?

Mr. CASH. That this has been received, yes.

Mr. KELLEY. Do you think that would be a sufficient thing to protect the Government?

Mr. CASH. No; it took two or three signatures.

Mr. KELLEY. But signatures, you think, would be all that would be necessary?

Mr. CASH. Signatures, yes, on the voucher; yes, sir.

Mr. KELLEY. You do not think it would require a detailed statement showing just what articles have been purchased?

Mr. CASH. Why, on the voucher is the bill, the items listed, of course.

Mr. KELLEY. All of them?

Mr. CASH. Yes.

Mr. KELLEY. Well, in your investigation did that always follow? Could you tell from the voucher exactly what the transaction was about, and whether or not it might not be paid by another voucher?

Mr. CASH. You mean whether the vouchers could have been duplicated or not?

Mr. KELLEY. Yes.

Mr. CASH. Well, the bill or voucher or invoice, as the case may be, would be divided and the articles enumerated and signed by the resident auditor.

Mr. KELLEY. You might have more than one voucher on the same day, might you not?

Mr. CASH. Certainly.

Mr. KELLEY. How would you know that it was not the same goods?

Mr. CASH. You have to take the signature of somebody, the word of somebody, that he received the goods, and he vouches for the fact that they are delivered.

Mr. KELLEY. You do not know what information was lacking in this \$1,500,000,000 of vouchers?

Mr. CASH. No; I do not; no, sir.

Mr. KELLEY. When you were in the Downey plant did you find any trace of these \$10,000 notes that were paid to Sands?

Mr. CASH. No; I never heard of them until I read of them in the newspaper now; no, sir.

Mr. KELLEY. You did not go over the books of the Downey Co.?

Mr. CASH. No, sir.

Mr. KELLEY. Who would know; who would find the record of those notes? Would the resident auditor at the time know about this?

Mr. CASH. I doubt very much whether he would have in that case or not; no.

Mr. KELLEY. Well, if an item of \$10,000 was vouchered through, would not somebody know about it before it was paid by the Government?

Mr. CASH. Yes; if it was vouchered through for the Government to pay it; yes; that would come to the district auditor.

Mr. KELLEY. Did you ever hear of any such notes being vouchered through?

Mr. CASH. I never did.

Mr. KELLEY. No talk about that at all?

Mr. CASH. Never heard a word mentioned of it; no, sir.

Mr. KELLEY. What did you mean when you said the resident auditor at the Downey plant was too friendly to the shipbuilders?

Mr. CASH. Well, I meant, as my memory holds now, that he would be apt to work in their interest as against the interests of the Shipping Board.

Mr. KELLEY. That he would pass improper accounts, eh?

Mr. CASH. That is the idea I had in mind; yes.

Mr. KELLEY. What is his name?

Mr. CASH. I do not remember the name now. I can easily find it.

Mr. KELLEY. What date are you speaking of now?

Mr. CASH. I am speaking of—let me see, along in the fall of 1918; the spring of 1919.

Mr. KELLEY. And whoever was the auditor in September, we will say, or October of 1918—

Mr. CASH. Yes; I should say; yes.

Mr. KELLEY. You say would pass improper accounts favorable to the Downey Co.?

Mr. CASH. No; I did not say that they would pass improper accounts. That was the opinion in the office of the district auditor in New York, that he required checking up.

Mr. KELLEY. Why did they let him stay there for so long, if that was the opinion?

Mr. CASH. I think he was changed right after that.

Mr. KELLEY. As soon as the opinion was formed?

Mr. CASH. As soon as there was an investigation made, I believe. This particular man—I have forgottten his name, I can easily ascertain it from the records—formerly worked for them, I believe, before he worked for the Emergency Fleet.

Mr. KELLEY. Was there an opinion about your department there, that this Downey Co. needed to be watched like that, that they would take advantage of an auditor friendly to them?

Mr. CASH. Well, there is nothing that I can put my finger on and say, "Yes"; no, sir.

Mr. KELLEY. There was nothing more than a suspicion of that kind?

Mr. CASH. There was a suspicion; yes, sir.

Mr. KELLEY. There was a suspicion?

Mr. CASH. There was a suspicion; yes, sir.

Mr. KELLEY. You do not know on what that was based?

Mr. CASH. I do not remember just what; no.

Mr. KELLEY. Did you ever hear on what it was based?

Mr. CASH. If I had, I would have told you. No.

Mr. KELLEY. Under the system of bookkeeping and auditing in the Boston district, during this time that you speak of, were the supplies and material issued, as you say, upon requisition, or did the men just go and help themselves to lumber and other material, and use it as they pleased?

Mr. CASH. Well, I should say that in some of the yards, in the case of lumber, they might go and help themselves.

Mr. KELLEY. Help themselves?

Mr. CASH. Yes, sir; take what might be needed.

Mr. KELLEY. And if the lumber was intended for shipbuilding and they should use it for plant extension, all right?

Mr. CASH. I do not believe there was any way of the auditing division checking that.

Mr. KELLEY. And in the case of wiring for the ship, they could use that for plant extension, could they?

Mr. CASH. I think that could have been done; yes, sir.

Mr. KELLEY. And the men would just go and help themselves to that wire?

Mr. CASH. Well, wire and articles of that kind, I guess they were kept in a warehouse; lumber is always piled loose, you know.

Mr. KELLEY. Were they always kept in a warehouse so that the men could go and get them; was not the door always unlocked in many of these yards, so that the men went and helped themselves?

Mr. CASH. Yes; I think that was true; yes, sir.

Mr. KELLEY. You think that was true?

Mr. CASH. I do.

Mr. KELLEY. So that there never was any proper system of issuing supplies so that they could be kept track of, in the Boston district?

Mr. CASH. I think that applies in all three districts.

Mr. KELLEY. All three districts the same?

Mr. CASH. Yes, sir.

Mr. KELLEY. How would the Government keep track of its material; or when it was gone they bought some more, is that the idea?

Mr. CASH. Well, there was a lack, in my remembrance, there was a lack of a sufficient check of materials from the time they were brought into the yard until the time they were actually installed on the boats.

Mr. KELLEY. If it was checked out by some one in charge of a warehouse, there was no counterchecks of any kind by the auditing department of that issue of material; you simply accepted——

Mr. CASH. The storehouse keeper's signature.

Mr. KELLEY. The storehouse keeper's signature. You did not consult his books to see for what it was issued?

Mr. CASH. Oh, yes; they consulted the books very often, the records.

Mr. KELLEY. I thought you said they just accepted his signature, that it was done?

Mr. CASH. Well, that is the signature. Anything taken out of the warehouse is signed for, we will say, on a requisition.

Mr. KELLEY. That is, if it was signed for.

Mr. CASH. Yes; but the point I tried to make was this: That after goods came in to a warehouse, assume they were properly warehoused, they were properly issued on a requisition and signed for by the man taking them, they were transported to the ship, went on to the boat; but the auditing division never followed to see whether they were actually installed on the boat or not. In other words, in the case of private work and Government work, if a contractor had both classes of contracts in his yard, I think it was possible for him to obtain stuff from the warehouse on requisition, put it on to a Government boat, and afterwards transport it to a privately owned boat and use it.

Mr. KELLEY. Suppose a contractor had private work and work for the Government in his yard, was it not possible for him to go and help himself to Government lumber and put it on either ship that he saw fit?

Mr. CASH. You mean steal it?

Mr. KELLEY. Why, use it?

Mr. CASH. Steal it; yes. It could be done.

Mr. KELLEY. It was possible, and there would be no check on that at all?

Mr. CASH. It could be stolen in the night; it could be stolen at any time, certainly.

Mr. KELLEY. And it is not only true of lumber but other material where the storehouses were left open so that the men could go and help themselves to material at will, and the Government permitted that to go on in all these districts; that is your testimony, is it not?

Mr. CASH. I think you asked if it was not possible to do it. I say yes.

Mr. KELLEY. I asked you if it was not done.

Mr. CASH. I do not know that it was done universally, but I say it was possible to do it; yes.

Mr. KELLEY. Under the system in force in every district it was possible to do it?

Mr. CASH. It was possible to do it; yes, sir.

Mr. KELLEY. The contractor, if he were dishonest, could always avail himself of that opportunity?

Mr. CASH. Yes.

Mr. KELLEY. To take Government property and put it up on a privately constructed ship?

Mr. CASH. If he were dishonest.

Mr. KELLEY. And there was no system of bookkeeping by which the auditing department of the Government would catch that?

Mr. CASH. Would catch that, you say? Why, yes; we have a check of materials put in and out of the warehouse, for instance, or lumber in and out of there. He might sign for the lumber when he took it, but there was no check that the auditing division had to know whether the material was actually used on boat No. 2 or No. 3 or No. 4.

Mr. KELLEY. That is what I say. Lumber came in, but you do not know where it went out.

Mr. CASH. Yes; I think that is true.

Mr. KELLEY. Were you in the auditing department when they found 3,000 errors in the pay roll up at the Groton Iron Works?

Mr. CASH. I do not remember the number of errors, 3,000 errors. I know they were checking over pay rolls there; I think that District Auditor Mann spent three months up there.

Mr. KELLEY. And you would not be surprised if the errors were at least 3,000?

Mr. CASH. I would not be surprised; no, sir; I would not.

Mr. KELLEY. How would it be possible for 3,000 errors to creep into the pay roll there?

Mr. CASH. The Groton Iron Works? I want to correct that. It was not Mann in the Groton Iron Works; that was Mr. Strong's district.

Mr. KELLEY. How would it be possible for 3,000 errors to creep into a pay roll covering a period of several months, without its being ascertained before or being caught before, down here at the headquarters, or the headquarters in Boston?

Mr. CASH. How long a period do you mean that these 3,000 errors crept in; in calculation between figures?

Mr. KELLEY. Oh, every sort of an error. Is there no check up on the pay rolls that would catch that?

Mr. CASH. Why, yes; the resident auditor is supposed to check that.

Mr. KELLEY. And that is the only check up that there is?

Mr. CASH. Certainly. He is on the job there and is supposed to check the pay rolls and O. K. them, sign them.

Mr. KELLEY. And there would be no other way to catch that at all if he were dishonest and made these errors purposely?

Mr. CASH. The inspector of the construction department would sign this account, and the pay roll would come to the resident auditor. There could be collusion between the two of them, I presume.

Mr. KELLEY. You knew that the auditing in the Groton Iron Works plant was very faulty, did you, from your investigation?

Mr. CASH. Yes; I think it was, in both the Noank plant and the Groton Iron Works, both of them. They were not able to get very high-class men, you know, in the position of resident auditors; they gave them a salary of from \$2,400 to \$3,000, or something of that kind; that would not get a very high type of man.

Mr. KELLEY. The Shipping Board fixed the salaries of the auditors, did they not?

Mr. CASH. Yes; they did; and that was one of the weaknesses, in my personal opinion.

Mr. KELLEY. But they could have paid more and paid enough to have gotten competent help. Was this not one of the most important places there was in connection with the manufacture of the ships?

Mr. CASH. Yes; I consider it so; and I think that a man that has the entire responsibility of a resident auditor of the Groton Iron Works or a plant of that size—they could not get a man that was capable for less than \$5,000 or \$6,000 a year instead of about \$2,000 or \$3,000. That was one of the faults.

The CHAIRMAN. Did you ever hear of the "black book" at the various shipyards?

Mr. CASH. No, sir.

The CHAIRMAN. Then you do not know whether there was a book which contained an itemized list of every bit of material that was supposed to go into a ship, which was checked as the material was used in the ship and returned, showing the disposition of the material?

Mr. CASH. There was no such book in the auditing division, if that is what you mean.

The CHAIRMAN. What?

Mr. CASH. There was no such book in the auditing division that I ever heard of. Do you mean the property of the contractor or the property of the auditing division?

The CHAIRMAN. The Shipping Board.

Mr. CASH. Well, that is in some other department—not in mine.

The CHAIRMAN. But in all your visits to the yards in your districts you never heard of any such book as that?

Mr. CASH. No, sir.

The CHAIRMAN. If there was such a book, Mr. Cash, you would have run across that, would you not—don't you think?

Mr. CASH. You mean in checking the material into the boat?

The CHAIRMAN. Yes.

Mr. CASH. Well, I didn't.

The CHAIRMAN. No; but don't you think, with the experience you have had in the various yards, that if there were such a book as that you would have run across it?

Mr. CASH. Not if it is not in use in my department I would not be so apt to find it, I don't believe. You see, I had nothing to do with the construction end, the wood ships or the steel ships—the actual building of the ships. It was the Auditing Division only that I had to do with.

The CHAIRMAN. In your auditing work, if there were such a book as that in connection with the actual use of the material——

Mr. CASH. The only thing I can say is, I never saw one, never heard of one.

The CHAIRMAN. I am asking you if there were such a book don't you think you would have run across it in these yards in the district where you were?

Mr. CASH. If it was in general use I should think it would be perfectly natural that I should see it; yes, sir.

The CHAIRMAN. But you never knew there was such a book?

Mr. CASH. I never knew there was; no.

The CHAIRMAN. With reference to the Downey shipyard, where you said you thought there were padded pay rolls, do you recall that the method of financing that yard had to be changed shortly after, or after the lapse of some little time after, the awarding of the contract, after perhaps two or three progress payments had been made?

Mr. CASH. Yes; you mean moneys advanced; you mean some change?

The CHAIRMAN. Yes.

Mr. CASH. I believe there were, yes; although I do not remember just what the details were.

The CHAIRMAN. Now see if I can refresh your recollection. The Downey yard secured a contract from the Shipping Board, and after a few progress payments had been made it became necessary to change the method of financing, because the Downey Co. was unable to carry on the contract under the original method. Don't you know that practically that was the situation, after they had gotten started on their contract?

Mr. CASH. What date was that, about what date; do you remember?

The CHAIRMAN. Well, it was not very long after the contract was awarded. I think the Downey contract was awarded in July, 1917; this might have been within three or four months after that.

Mr. CASH. You see, I came in July, 1918; the latter part of July, 1918.

The CHAIRMAN. Oh, you did not come until a year after?

Mr. CASH. No, sir.

The CHAIRMAN. How many times did you visit the Downey plant?

Mr. CASH. Oh, I presume three or four times altogether.

The CHAIRMAN. Do you know of your own knowledge whether, if there had been padded pay rolls in that plant, they would not have been caught in the final adjustment and settlement with them?

Mr. CASH. Oh, that is very hard to check up a pay roll that is three months old, for instance, or four months. There is the turnover in the yard, the men come and go; if you have 1,000 men working now there may be only four or five hundred working a month from now of those same men, yet the total of employees would be the same. It is very hard to check a pay roll that is three or four months old.

The CHAIRMAN. While you were there, did you find any instances of men in the yard being carried upon the pay roll—

Mr. CASH. Did I personally? No.

The CHAIRMAN (continuing). Who had previously been discharged and were not at work there?

Mr. CASH. No; but bear in mind, my office or headquarters was 115 Broadway, with district No. 1, when Mann was district auditor there, and perhaps three or four days in the week I would be in the

home office, and these discussions or reports would come in from the resident auditor or some other one, and they were starting men down there to make special audits, and I would go through the work when it came back, read it, and so in a general way, while I did not have anything to do with it personally, the actual work in the yard, yet I was cognizant of what was going on and read pretty nearly everything in the office there.

The CHAIRMAN. I just do not understand your contention, perhaps I might call it, with reference to the actual material which was requisitioned out of the warehouse going into the construction of the ship. You would not have a representative of the auditing department aboard ships?

Mr. CASH. No.

The CHAIRMAN. Watching that material.

Mr. CASH. Yes. There was no contention; I just brought up my personal opinion, what I thought of it. There was no way of checking it.

The CHAIRMAN. How would you remedy that apparent defect, if such exists, that there is no way that the auditing department can tell that material requisitioned out of the warehouse actually went into the ship for which it was intended?

Mr. CASH. I mean not only that it went aboard the ship, but was used in the ship.

The CHAIRMAN. Yes; how would you remedy that?

Mr. CASH. Why, it would have to be, of course, by absolute confidence in the inspectors; take their signature for it, etc., and then the gang foreman or whoever it is, that the work was actually installed.

The CHAIRMAN. Don't you know that was just what was done in every yard that was building a ship for the Shipping Board?

Mr. CASH. Yes.

The CHAIRMAN. That they reposed confidence in the chief inspector and his assistants and the gang foreman, and after the inspector passed his approval upon it, certified that the materials taken out of the warehouse was actually used in the ship, or if it was not it was certified as surplus, and that that information was conveyed or transmitted to the auditing department?

Mr. CASH. Yes; that was the method.

The CHAIRMAN. That was the method?

Mr. CASH. Yes, sir; in the majority of cases that I know of; in fact, all the cases that I know of that was the method that was to be pursued.

The CHAIRMAN. Well, was it pursued?

Mr. CASH. I say that there was no way of the Auditing Division knowing that it was actually used in the ships. Of course, they took these signatures for it. I have no doubt that in a good many cases it was not so followed up.

The CHAIRMAN. Are there any further questions, Mr. Kelley?

Mr. KELLEY. You spoke about large quantities of lumber being placed into the yard in Alexandria, and then it found its way out of the yard into houses being built by a subsidiary corporation.

Mr. CASH. The "large quantities" were 18 cars, as I remember it, that went through the yard and were found on the sidetracks at Rosemont.

Mr. KELLEY. Now, just explain how that lumber would get out, and just what record was made of it.

Mr. CASH. I do not know how it got out. It was found there, and that was all.

Mr. KELLEY. Somebody just happened to find it?

Mr. CASH. Yes, sir.

Mr. KELLEY. I suppose somebody had tipped the auditors off that it was being done?

Mr. CASH. Possibly.

Mr. KELLEY. But how would you find it from your records, that is what I am getting at?

Mr. CASH. Well, the lumber would be checked into the yard.

Mr. KELLEY. Yes; checked into the yard.

Mr. CASH. But how it was gotten out I do not know. I know that it was out, and I know it was on the sidetrack, because I saw the cars—

Mr. KELLEY. How do you know it was not in the yard? You could not tell. Here is a pile of lumber there, and you are an auditor; you do not know whether there is 10,000,000 feet in that pile of lumber or 5,000,000. Did you keep an inventory, a strict inventory, so as to know exactly what amount of material was on hand at any particular day?

Mr. CASH. I presume the resident auditor did; yes.

Mr. KELLEY. Well, did he?

Mr. CASH. I say I presume he did.

Mr. KELLEY. Is there a single yard that you know of, in any of these districts, where an auditor could tell how much stuff he had on hand of every kind at any particular time?

Mr. CASH. That is a pretty broad statement. I would not say that was true of everything; no. I can imagine that a stock of lumber might—they might not know exactly to a thousand feet of it what there was.

Mr. KELLEY. Well, they ought to know exactly if they know at all.

Mr. CASH. The book records, you mean?

Mr. KELLEY. They have the records of the material in.

Mr. CASH. Yes.

Mr. KELLEY. And the requisitions out?

Mr. CASH. Yes; and the balance should tally what is in the yard.

Mr. KELLEY. And the balance should be in the stock?

Mr. CASH. Yes. Still, as an actual fact, these cars did go through and went out onto the track.

Mr. KELLEY. And no record to show they were not in the stock?

Mr. CASH. Undoubtedly that was the condition.

Mr. KELLEY. Now, tell me how that could be done?

Mr. CASH. Why, it was just done; that is all. They were brought out on the tracks there.

Mr. KELLEY. Was it done in violation of the record, or was it done even in spite of the fact that the records were kept.

Mr. CASH. It must have been in spite of the fact that the records were kept. I saw the cars on the track. I read the report of them in the department of investigation, how they got there, and I know from Overend, district comptroller there, that five or six of the cars were sold to outside parties and that it was originally going for ship construction in the Virginia Shipbuilding Corporation yards.

Mr. KELLEY. Let me ask you this question now: From your investigation in these three districts, did those in charge of the stock know at any particular yard how much material they had on hand of any particular sort?

Mr. CASH. You mean in every case? I could not answer that question, whether they all knew. Some were faulty.

Mr. KELLEY. Were the books so kept that the Government knew at any particular time how much of an inventory they had on hand of any particular class of material in any yard?

Mr. CASH. I think in a great many yards it would be very difficult to tell.

Mr. KELLEY. Your observation was that, in the case of lumber, that was pretty largely piled outside?

Mr. CASH. Not only lumber, but supplies and all that.

Mr. KELLEY. I know; but in the case of lumber it was piled outside, and people helped themselves to it in a great many yards?

Mr. CASH. What do you mean by people helped themselves?

Mr. KELLEY. Employees of the yard?

Mr. CASH. Employees that were working there; they could help themselves; yes.

Mr. KELLEY. And whether that was used upon Government work or private work was a matter of the integrity of the shipbuilder?

Mr. CASH. In my personal opinion, yes.

Mr. KELLEY. And not the bookkeeping or accounting of the Government?

Mr. CASH. No.

Mr. KELLEY. That is what you are swearing to now, is it?

Mr. CASH. You could keep an account of the lumber and still somebody could go and take the lumber and make no account of it, and it would not show on the books.

Mr. KELLEY. That is the idea. That is what Mr. Walsh was trying to get out from you.

Mr. CASH. That was possible; yes.

Mr. KELLEY. That if it was requisitioned out of the stock for the purpose of going upon a ship, you say you do not know whether it all went on the ship or not?

Mr. CASH. Yes.

Mr. KELLEY. And then there is no record, if it did not go, to show what became of it?

Mr. CASH. No, unless somebody——

Mr. KELLEY. Unless somebody what?

Mr. CASH. O. K'd the receipt of it on the ship.

Mr. KELLEY. But that could be overlooked?

Mr. CASH. That could be overlooked, or they might sign for it on board the ship and still not use it.

Mr. KELLEY. An inspector sometimes had many ships, did he not, to look after?

Mr. CASH. Yes.

Mr. KELLEY. And if material were requisitioned out of the stock to go upon some particular ship he did not follow that material up, did he?

Mr. CASH. No; he did not.

Mr. KELLEY. He did not know in many cases that it ever had been requisitioned, did he?

Mr. CASH. No, sir.

Mr. KELLEY. Or that he was expected to follow it?

Mr. CASH. That is true.

Mr. KELLEY. To see that it was put into any particular ship. It might have been carted off from the warehouse to a ship being built for private account?

Mr. CASH. True.

Mr. KELLEY. And it might be used and an inspector never have any further knowledge of it at all?

Mr. CASH. There might be three ships on the ways, and it would be requisitioned for *this* ship and used on *that* ship.

Mr. KELLEY. Do you mean there was no bookkeeping in these yards that would anywhere catch that?

Mr. CASH. Well, the entries might all be made. I wonder if you get my point? The entries might all be made to go into hull No. 1, the entries made complete, and yet it might not be used for hull No. 1.

Mr. KELLEY. It could not go into hull No. 1 unless the inspector said it went into hull No. 1?

Mr. CASH. No; he would sign for it as going into hull No. 1.

Mr. KELLEY. Would he sign for it sort of in blank as going into No. 1, because he had so many ships to supervise that he could not know whether it went in there or not?

Mr. CASH. And it might be hauled over there, or transported to hull No. 2; that is what I mean. The records would be complete, to show that the lumber had been taken, and yet it might have been put on other than the hull that it was signed for. Do you see what I mean?

Mr. KELLEY. I am not sure whether I do or not. Who makes the requisition for the material for a ship?

Mr. CASH. You mean at the yard?

Mr. KELLEY. When the men are ready to put a piece of machinery in place.

Mr. CASH. The foreman.

Mr. KELLEY. Which is to come out of the storehouse, who makes the requisition?

Mr. CASH. The foreman.

Mr. KELLEY. He issues a slip?

Mr. CASH. Yes.

Mr. KELLEY. Are those slips preserved?

Mr. CASH. Why, I presume they were preserved.

Mr. KELLEY. I know, but I am talking about your information now.

Mr. CASH. I don't know.

Mr. KELLEY. As to when you made these investigations, do you know whether or not those slips were preserved?

Mr. CASH. No; I do not know.

Mr. KELLEY. Well, unless they were preserved——

Mr. CASH. Of course there would be no record.

Mr. KELLEY (continuing). There would be no record of the requisition?

Mr. CASH. Naturally, but each storehouse keeper is supposed to keep a book, and keep all these requisitions that come in, and supposed to file them away.

Mr. KELLEY. You were in the auditing department for several months?

Mr. CASH. Yes.

Mr. KELLEY. And I am asking you whether or not, as a matter of practice, these foremen's slips were preserved?

Mr. CASH. They should have been; yes.

Mr. KELLEY. I know they should have been, but I am asking you, were they?

Mr. CASH. Well, I can not tell you whether they were or not.

Mr. KELLEY. Those slips should be attached to the vouchers, should they?

Mr. CASH. No.

Mr. KELLEY. Before payment is made?

Mr. CASH. No.

Mr. KELLEY. Where are they kept?

Mr. CASH. They are kept in the warehouse, I say.

Mr. KELLEY. They are kept there?

Mr. CASH. Yes; part of the records of the warehouse.

Mr. KELLEY. They would not be some of the supporting evidence that the Treasury Department requires?

Mr. CASH. No; they would not. I never saw one of them attached to vouchers.

Mr. KELLEY. But they should be kept on file——

Mr. CASH. In the warehouse.

Mr. KELLEY. In the warehouse?

Mr. CASH. Yes; the same as pay rolls, for instance, are not attached to a voucher; the pay rolls paid in the yard are not. The pay rolls are kept in the yard, of course, and the amount vouchered by the resident auditor, signed by the contractor and the resident auditor.

Mr. KELLEY. Now, if they ordered lumber or material for one ship and put it on another, then they would create a surplus there at some time or other, would they not, which would account for the transfer of lumber from one ship to another?

Mr. CASH. How would they create a surplus?

Mr. KELLEY. Well, you would finally reach a point where you would be ordering lumber where you did not have any ship to put it in.

Mr. CASH. Yes; if one of those ships happened to be a private contract; yes. You know what I mean by a private contract of the shipbuilder?

Mr. KELLEY. Yes.

Mr. CASH. Certainly, then there would be a shortage of lumber.

Mr. KELLEY. What special harm would it do if they did ship the lumber from one ship to another?

Mr. CASH. I do not know that there would be any particular harm, except in progress payments or anything of that kind. It might have an effect there.

Mr. KELLEY. Oh, yes; it might shorten the time within which payments were to be made.

Mr. CASH. Possibly.

Mr. KELLEY. If they demanded more material and got it out into the yard.

Mr. CASH. To that extent; yes.

Mr. KELLEY. Do you know whether that ever was actually done or not?

Mr. CASH. I do not know. I do not have in mind any particular instance. Of course, if it was a private contract it would be entirely different.

The CHAIRMAN. Who appointed you, Mr. Cash?

Mr. CASH. Gordon Wilson, or Dickinson, I believe, was the first man who sent for me.

The CHAIRMAN. Sir?

Mr. CASH. Dickinson was assistant general auditor. Mr. Gordon Wilson, I believe, confirmed my appointment.

The CHAIRMAN. And did you resign?

Mr. CASH. I did; yes, sir.

The CHAIRMAN. A year ago in September?

Mr. CASH. Yes, sir; of my own free will and accord.

The CHAIRMAN. Your resignation was not asked for?

Mr. CASH. Absolutely not; no, sir.

The CHAIRMAN. Were you at all times attached to the auditing department?

Mr. CASH. Always.

The CHAIRMAN. Did you ever make reports to the bureau of plant protection?

Mr. CASH. Yes.

The CHAIRMAN. Or the department of investigation?

Mr. CASH. Yes; I worked in connection with them, but hardly reported to them. I would make a report to Gordon Wilson, and very often sent copies of my reports to them.

The CHAIRMAN. What would be the occasion of your reporting to them, the plant protection bureau or the department of investigation?

Mr. CASH. Well, in some of my investigations, through Gordon Wilson to Mr. McLeod, the head, they would detail one or two men to work with me, sometimes three; and we three or four would go out onto the job, and we would ferret out what we could, and the report would come in and I would generally report to him, and naturally having two or three of their men along with me I would send a report in to them, the department of investigation.

The CHAIRMAN. That is, as to irregularities or things that ought to be looked into?

Mr. CASH. As to irregularities; yes, sir. And there might have been something of the same kind happen before, that the auditing division had nothing to do with, that the department of investigation had unearthed, and I would go in and read the files on that before I started out; so I was pretty generally informed.

The CHAIRMAN. You were informed sometimes before you went as to irregular practices prevailing, and sometimes you got your information after you visited the plant, in which case you would refer it to the proper department?

Mr. CASH. Yes, sir.

The CHAIRMAN. The plant protection or the bureau of investigation?

Mr. CASH. Yes, sir.

The CHAIRMAN. Then, as a matter of fact, you did very little auditing at all.

Mr. CASH. Actual auditing; yes, sir; very little actual auditing.

The CHAIRMAN. Well, was not that unusual in your case?

Mr. CASH. I do not think so, under the circumstances. Why, what do you mean? Unusual?

The CHAIRMAN. Do not traveling auditors usually audit?

Mr. CASH. Well, the title would lead you to suppose so; yes, sir.

The CHAIRMAN. Well, do they not as a matter of fact; do you know of any other traveling auditor that did the same——

Mr. CASH. Did the same kind of work as I do?

The CHAIRMAN. Yes, sir.

Mr. CASH. Not for the Fleet, that I know of; no, sir.

The CHAIRMAN. So while you had the title of traveling auditor, you were sort of an investigator in a sense?

Mr. CASH. Investigator; a sort of a business representative in taking the place of Gordon Wilson in the field, I believe is about the way it was put. That was the thorough understanding before I went with the Fleet. I did not seek the position.

The CHAIRMAN. You were a sort of personal representative of Mr. Gordon Wilson?

Mr. CASH. And Mr. Bender; yes, sir.

The CHAIRMAN. Did you have authority to order changes in the methods of auditing or accounting at the various yards?

Mr. CASH. No; I was to take it up with the district auditor, as the case may be, and if the changes were not made they were reported to my superior, of course, Mr. Gordon Wilson. I had no authority to hire or fire or change methods in the office, simply to pass on them and report, and if we could not—we never had any friction, though, between myself and the district auditors.

The CHAIRMAN. You say you had a thorough understanding with Mr. Wilson at the time you took this position?

Mr. CASH. That I was not a certified public accountant, or had made accountancy my profession.

The CHAIRMAN. But you felt that you had experience and ability enough to detect improper practices?

Mr. CASH. Yes.

The CHAIRMAN. Or irregularities?

Mr. CASH. Yes.

The CHAIRMAN. Even though they had to do with accounting?

Mr. CASH. Yes.

The CHAIRMAN. Or lax or defects in the system?

Mr. CASH. Yes.

The CHAIRMAN. Have you anything further, Mr. Kelley?

Mr. KELLEY. Under the system of bookkeeping in use, was the billing of material from a storehouse to a contractor done immediately on the shipment of the material?

Mr. CASH. No; as I have remembrance, there was quite a lot of that work to be done; they were behind several months in it when I left the Fleet, I believe.

Mr. KELLEY. You mean that the contractor would not get the bill for his supplies for several months after the goods were shipped?

Mr. CASH. I believe they were.

Mr. KELLEY. Well, how could settlements be made with contractors?

Mr. CASH. Well, they were behind in that building, as an actual fact, I know.

Mr. KELLEY. As many as—how many months?

Mr. CASH. Memory says—mark you, this is a lot of guesswork, may I repeat—I should say two or three months would be nothing unreasonable, in a good many cases.

Mr. KELLEY. And the yard would not have the bill of lading for three or four months after the goods had been shipped?

Mr. CASH. What do you mean, the bill of lading? You mean the materials purchased from——

Mr. KELLEY. The invoice of materials; or does that go along with the goods?

Mr. CASH. Do you mean the material brought from where?

Mr. KELLEY. No; from the Government to one of these contractors; from a storehouse?

Mr. CASH. Well, the storehouse located in the yard?

Mr. KELLEY. Not always, were they?

Mr. CASH. You mean Wilsons Point, for instance?

Mr. KELLEY. I do not know about Wilsons Point, but any other point?

Mr. CASH. Wilsons Point was a storage warehouse that was behind with their billing, I know.

Mr. KELLEY. How far behind were they?

Mr. CASH. Several months.

Mr. KELLEY. Just what do you mean by “behind in their billing”?

Mr. CASH. The goods had been shipped and had not been billed.

Mr. KELLEY. And the Government representative at the yard to which it had been sent would have no invoice, then, you mean?

Mr. CASH. Naturally.

Mr. KELLEY. Of the goods as they came in?

Mr. CASH. In that case that would be true; yes, sir.

Mr. KELLEY. How could he check those up to know whether the goods that had been sent were delivered?

Mr. CASH. In those circumstances there is no way that he could check until he got an invoice, I presume.

Mr. KELLEY. Do you mean to say it was a general practice?

Mr. CASH. No; I do not say it was a general practice. I am talking about this particular instance at Wilsons Point now.

Mr. KELLEY. I know, but you did say it was no uncommon thing for the invoice to be three or four months behind the delivery of the goods. That being the case, how could the local representative at the yard check those goods as they came in?

Mr. CASH. Well, the only way he could do would be to count them, I suppose, and take an inventory.

Mr. KELLEY. Make an invoice of what came in?

Mr. CASH. Yes.

Mr. KELLEY. Well, did he do it?

Mr. CASH. Well, I don't know whether he did or not, in all cases.

Mr. KELLEY. You were a traveling representative of the accounting department?

Mr. CASH. Yes.

Mr. KELLEY. And then would that statement which he made be afterwards compared with the invoice, to see whether everything had come through or not?

Mr. CASH. Very often it might be; I should think it would be good business.

Mr. KELLEY. And it might not be?

Mr. CASH. It might not be. I should think that would be so; yes.

Mr. KELLEY. Then the fact is that the goods, as they came into these different contractors' yards, might not be checked at all, because the Government representative there did not have the invoice and did not know what was supposed to be sent; is that a fact?

Mr. CASH. Well, if he did not have an invoice he could not check it, I suppose.

Mr. KELLEY. And these invoices were three or four months behind the shipments, approximately?

Mr. CASH. I do not say every invoice was, but a good many of them; yes. Do not put any words in my mouth that I do not use.

Mr. KELLEY. I know; I am not trying to put words in your mouth.

Mr. CASH. And I am trying to tell just exactly the truth.

Mr. KELLEY. But you say it was no uncommon thing for that to happen?

Mr. CASH. I was referring particularly then to Wilsons Point. I know they were away behind in their billing; I know there was a good deal of talk about it.

Mr. KELLEY. I am asking you, when the situation exists——

Mr. CASH. And the record of all that is there and can be had.

Mr. KELLEY. I am asking, when that situation exists, of the invoices three or four months behind the shipments, how the Government is going to check that when the goods are delivered?

Mr. CASH. Yes.

Mr. KELLEY. They can not do it, can they?

Mr. CASH. No; that would be impossible, unless it was some big article, or something of that kind—a piece of machinery—they know it is there.

Mr. KELLEY. And then, in settling with the contractor from time to time, such settlements had to await the arrival of the invoice?

Mr. CASH. Had to await the arrival of the invoice; yes. One of the biggest distributing points is that Wilson Point warehouse, is it not, one of the largest you know?

Mr. KELLEY. Yes.

Mr. CASH. Well, don't you know it is an actual fact for three or four months billing was behind that much?

Mr. KELLEY. You are not asking me, are you?

Mr. CASH. I know I should not ask you that. It was the fact.

Mr. KELLEY. It does not make much difference what I know or what I do not know, particularly.

Mr. CASH. It was the fact; I had nothing to do with Wilson Point at all, of course.

Mr. KELLEY. Did you not put in the system of accounting down there?

Mr. CASH. I did not.

Mr. KELLEY. Did you modify it in any way?

Mr. CASH. No, sir.

Mr. KELLEY. Or make any suggestions as to how it should be modified?

Mr. CASH. I have talked in conference with the district auditor and the resident auditor and have made probably two or three trips there, and they changed resident auditors there, and the new man tried to catch up on the work that the old man had not performed and then tried to bring it up to date, and I know that it was several months behind at the time.

Mr. KELLEY. What excuse is there for being several months behind in sending out invoices for goods that have been shipped?

Mr. CASH. Well, two or three things—might be overwork, incompetency, insufficient help.

Mr. KELLEY. Oh, well, the Government had abundance of money to hire clerks, and did not hesitate to hire them wherever they were needed or wherever they were not needed.

Mr. CASH. Yes.

Mr. KELLEY. Why did they not hire them here, at Wilsons Point, or wherever it was?

Mr. CASH. I don't know why. That was not my place, of course.

Mr. KELLEY. You must have heard some talk there about a shortage of help, didn't you?

Mr. CASH. Oh, yes. I know I didn't like it much.

Mr. KELLEY. Did you report to your superior officer that there was a shortage of help down there?

Mr. CASH. Of course, I must have.

Mr. KELLEY. Was it remedied?

Mr. CASH. Why, the auditor was changed, I know. A man named Mosser, I believe, is there now.

Mr. KELLEY. Changing the auditor would not be the remedy, would it?

Mr. CASH. It might be, if you put a more competent man in.

Mr. KELLEY. And then the work was caught up?

Mr. CASH. Well, I have my doubts. It had not been when I left the Emergency Fleet.

Mr. KELLEY. What you are testifying to here is that at one of the largest and most important of the Government storehouses, which supplied the contractors with material for the ships, the invoices were months behind the shipment of the goods, for a period of how long a time?

Mr. CASH. Well, do you mean how long did that condition exist?

Mr. KELLEY. Yes.

Mr. CASH. Oh, I could not tell you that; but I know when I left the Emergency Fleet they were, I should say, two or three months behind.

Mr. KELLEY. And they had been further behind even than that?

Mr. CASH. No; I do not say that; but I say that is about my—you can not pin me down to two, three, or four months. Two or three months they were behind in their invoices; yes.

Mr. KELLEY. That was one of the largest storehouses the Government had?

Mr. CASH. I think so; yes, if not the largest.

Mr. KELLEY. How about the yard auditors; were they behind, too, in checking up the goods that were taken out of the storehouses?

Mr. CASH. Why, I should say not generally. I guess that may have been the case in a few of the yards.

Mr. KELLEY. But you knew in the yards your books, the Government's books, would show how much material had been drawn out of the storehouses?

Mr. CASH. Yes.

Mr. KELLEY. That is, if they were kept up?

Mr. CASH. Yes.

Mr. KELLEY. From day to day?

Mr. CASH. Yes.

Mr. KELLEY. But you do not know whether or not they might not have been several months behind there, too?

Mr. CASH. They may have been in some yards, behind. It is like any mercantile business; you hire an employee to do certain things; he may do it or he may be behind.

Mr. KELLEY. But from your investigation did you find such a condition existing anywhere?

Mr. CASH. I do not remember any particular yard, and yet I have a sort of a remembrance that some of them were behind.

Mr. KELLEY. How far?

Mr. CASH. Oh, I could not tell you that.

Mr. KELLEY. Well, approximately?

Mr. CASH. I said a month.

Mr. KELLEY. How many months?

Mr. CASH. Possibly a month, I say.

Mr. KELLEY. A month?

Mr. CASH. Yes. I do not want to say anything that I do not know positively, you know.

The CHAIRMAN. That is all, Mr. Cash. Mr. Malmar.

TESTIMONY OF MR. EDWARD S. MALMAR—Recalled.

The CHAIRMAN. You were asked the other day, Mr. Malmar, to bring some records.

Mr. MALMAR. Yes, sir.

The CHAIRMAN. Of your bank. Yours is which bank?

Mr. MALMAR. The Corn Exchange Bank.

The CHAIRMAN. Have you had an opportunity to go over your records and prepare the lists for which we asked?

Mr. MALMAR. Yes [producing papers]. You asked for the balances at the close of the last business day of each month for all of these accounts.

The CHAIRMAN. Yes.

Mr. MALMAR. There are four accounts of the Downey Shipbuilding Corporation at our main office, there are the balances [handing papers], and one at our Staten Island branch [handing additional paper].

The CHAIRMAN. You have handed me sheets, the last one headed "Downey Shipbuilding Corporation in account with the Corn Exchange Bank, New York, Staten Island Branch, New Brighton, S. I."?

Mr. MALMAR. Yes, sir.

The CHAIRMAN. Beginning with July 25, 1917, down to March 18, 1919, inclusive?

Mr. MALMAR. Yes, sir.

(The statement referred to by the witness is as follows:)

Dr.: Downey Shipbuilding Corp'n. In acct. with The Corn Exchange Bank, New York. Cr.: Staten Island Branch, New Brighton, S. I.

1917.	
July 25, balance (opened)-----	\$25,000.00
July 31, balance-----	15,896.53
August 31, balance-----	19,476.75
September 30, balance-----	8,740.37
October 31, overdraft-----	190.82
November 30, balance-----	2,624.87
December 31, balance-----	7,436.08

1918.	
January 31, balance-----	2,496.51
February 28, balance-----	21,501.19
March 31, balance-----	4,310.90
April 30, balance-----	2,312.56
May 31, balance-----	3,036.43
June 30, balance-----	7,881.63
July 31, balance-----	1,207.19
August 31, balance-----	11,287.42
September 30, balance-----	2,038.40
October 31, balance-----	14,527.85
November 30, balance-----	10,048.06
December 31, balance-----	9,832.26

1919.	
January 31, balance-----	7,213.22
February 28, balance-----	38,102.77
March 17, balance-----	7,549.51
March 18, balance-----	7,549.51

The CHAIRMAN. You have handed me also a sheet headed "Downey Shipbuilding Corporation, in account with the Corn Exchange Bank, New York, Main Branch, Beaver and William Streets, New York City, N. Y.," beginning with July 20, 1917, down to March 18, 1919, inclusive.

Mr. MALMAR. Yes, sir.

(The statement referred to by the witness is as follows:)

Dr.: Downey Shipbuilding Corp'n. In acct. with The Corn Exchange Bank, N. Y. Cr.: Main Branch, Beaver and William Streets, N. Y. City, N. Y.

1917.	
July 20, c/o opened-----	\$50,000.00
July 31, balance-----	12,016.02
August 31, balance-----	13,382.90
September 29, balance-----	13,161.34
October 31, balance-----	13,973.81
November 30, balance-----	10,331.71
December 31, balance-----	60,070.20

1918.	
January 31, balance-----	53,335.50
February 28, balance-----	26,927.08
March 30, balance-----	54,500.15
April 30, balance-----	65,878.67
May 31, balance-----	45,327.59
June 30, balance-----	22,889.84
July 31, balance-----	4,837.76
August 31, balance-----	9,976.76
September 30, balance-----	14,824.40
October 31, balance-----	54,868.21
November 30, balance-----	14,226.72
December 31, balance-----	8,550.52

1919.

January 31, balance	\$30,031.30
February 28, balance	8,954.80
March 18, balance	10,965.18

The CHAIRMAN. You have handed me also sheet marked "Downey Shipbuilding Co., special a/c. In account with the Corn Exchange Bank, New York," same address, beginning with August 14, 1917, down to March 18, 1919, inclusive.

Mr. MALMAR. Yes, sir.

(The statement referred to by the witness is as follows:)

Dr.: Downey Shipbuilding Corp'n, special a/c. In acct. with the Corn Exchange Bank, N. Y. Cr.: Main Branch, Beaver and William Streets, New York City, N. Y.

1917.

August 14, a/c opened	\$4,063.24
August 31, balance	65,683.01
September 29, balance	41,155.57
October 31, balance	78,629.92
November 30, balance	20,095.40
December 31, balance	30,558.20

1918.

January 31, balance	825.62
February 28, balance	32,613.08
March 30, balance	1,989.15
April 30, balance	16,436.89
May 31, balance	1,026.76
June 30, balance	2,268.87
July 31, balance	6,025.94
August 31, balance	13,616.42
September 30, balance	66,598.24
October 31, balance	35,779.25
November 30, balance	35,845.98
December 31, balance	19,251.07

1919.

January 31, balance	4,417.74
February 28, balance	4,417.74
March 18, balance	417.74

The CHAIRMAN. You have handed me also sheet headed "Downey Shipbuilding Corporation, salary acct. In account with the Corn Exchange Bank, New York," same address, beginning July 31, 1917, down to March 18, 1918, apparently that is?

Mr. MALMAR. No; that should be 1919, you see.

The CHAIRMAN. I see; but it does not say so.

Mr. MALMAR. Will you permit me to correct that?

The CHAIRMAN. Yes; if you will correct it with ink.

(Mr. Malmar made the correction noted.)

The CHAIRMAN. Down to March 18, 1919, inclusive?

Mr. MALMAR. Yes, sir.

Dr: Downey Shipbuilding Corp'n, salary account. In acct. with the Corn Exchange Bank, N. Y., Cr: Main branch, Beaver and William Streets, New York City, N. Y.

1917.

July 31, account opened	\$14,654.70
August 31, balance	4,549.32
September 29, balance	4,493.32
October 31, balance	6,848.86
November 30, balance	4,641.66
December 31, balance	1,625.00

1918.

January 31, balance	\$4, 641. 66
February 28, balance	4, 641. 66
March 30, balance	1, 020. 16
April 30, balance	1, 208. 33
May 31, balance	3, 208. 33
June 30, balance	1, 208. 33
July 31, balance	3, 208. 33
August 31, balance	3, 208. 33
September 30, balance	2, 375. 00
October 31, balance	4, 041. 66
November 30, balance	4, 166. 66
December 31, balance	4, 166. 00

1919.

January 31, balance	4, 833. 33
February 28, balance	
March 18, balance	

The CHAIRMAN. You have handed me also sheet marked "Downey Shipbuilding Corporation, retroactive pay roll, in account with the Corn Exchange Bank, New York," same address, beginning August 9, 1918, down to March 18, 1919.

Mr. MALMAR. Yes, sir.

The statement referred to by the witness is as follows:

Dr: Downey Shipbuilding Corp'n. retroactive pay roll, in account with the Corn Exchange Bank, New York, Cr: Main branch, Beaver and William Streets, New York, N. Y.

1918.

August 9, a/c opened	\$27, 346. 35
August 31, balance	27, 346. 35
September 30, balance	7, 814. 20
October 31, balance	5, 694. 10
November 30, balance	4, 312. 45
December 31, balance	2, 433. 50

1919.

January 31, balance	2, 328. 10
February 28, balance	2, 308. 90
March 18, balance	2, 286. 85

Mr. MALMAR. There is the account of Wallace Downey, president, in the Staten Island branch [producing a further paper].

The CHAIRMAN. This sheet is marked "Wallace Downey, president and president, special, in account with the Corn Exchange Bank, New York, Staten Island branch, New Brighton, S. I.," from June 15, 1918, down to March 18, 1919.

Mr. MALMAR. Yes, sir.

(The statement referred to by the witness is as follows:)

Dr. Wallace Downey, president and president, special, in account with the Corn Exchange Bank, New York, Cr. Staten Island branch, New Brighton, S. I.

1918.

June 15, balance (opened)	\$4, 262. 00
June 30, balance	2, 312. 00
July 31, balance	6, 883. 00
August 31, balance	3, 549. 00
September 30, balance	2, 202. 50
October 31, balance	4, 734. 00
November 30, balance	3, 292. 50
December 31, balance	2, 473. 50

1919.

January 31, balance	\$1,434.50
February 28, balance	1,155.50
March 17, balance	876.50
March 18, balance	876.50

Mr. MALMAR. Also the Wallace Downey personal account in our terminal branch [producing paper].

The CHAIRMAN. This sheet is marked "Wallace Downey, in account with the Corn Exchange Bank, New York, terminal branch," from March 1, 1917, to March 18, 1919, inclusive.

Mr. MALMAR. Yes, sir.

(The statement referred to by the witness is as follows:)

*Dr.: Mr. Wallace Downey in acc't with the Corn Exchange Bank, Cr.
Terminal Branch.*

1917.

March 1, balance	\$47,736.21
March 31, balance	39,710.05
April 30, balance	36,990.37
May 31, balance	5,824.53
June 30, balance	955.48
July 31, balance	6,487.64
August 31, balance	1,176.14
September 29, balance	2,331.16
October 31, balance	3,231.50
November 30, balance	2,261.16
December 31, balance	2,011.42

1918.

January 31, balance	1,284.35
February 28, balance	996.57
March 30, balance	2,536.67
April 30, balance	2,172.93
May 31, balance	4,551.36
June 29, balance	934.08
July 31, balance	8,972.98
August 31, balance	11,106.76
September 30, balance	223.38
October 31, balance	2,330.38
November 30, balance	1,445.94
December 31, balance	1.86

1919.

January 31, balance	718.94
February 28, balance	1,864.56
March 17, balance	11,414.42
March 18, balance	808.02

The CHAIRMAN. Those are the only accounts you have?

Mr. MALMAR. That is all the accounts we have.

The CHAIRMAN. Have we asked for any accounts of Mr. Tucker K. Sands?

Mr. MALMAR. No, sir.

The CHAIRMAN. Is that all we asked for?

Mr. MALMAR. You asked me to find out about the loans that we made these people, and I have memoranda of them. I did not expect to file them with you, but I can answer any questions concerning loans made to Mr. Downey or the Downey Shipbuilding Corporation. I have these in memorandum form. I did not expect to leave them with you.

The CHAIRMAN. If you will give us a list, referring to the memorandum, that will be sufficient.

Mr. MALMAR. Loans to the Downey Shipbuilding Corporation: On March 3, 1919, we loaned them \$96,400, secured by Liberty bonds. This loan was for account of their employees. There were payments made periodically, the final payment being made on January 28, 1920. That final payment was made by selling the remainder of the bonds in our possession, under instructions from them, and applying it to the payment of the balance of the loan.

On October 3, 1918, we made a loan of \$240,023.44. This also was secured by Liberty bonds, for the account of the employees. There were payments made periodically on that, and the final payment made on December 30, 1919, that final payment being effected the same way as the other, in the selling of the balance of the bonds in our possession.

We made one loan to the Downey Shipbuilding Corporation on July 23, 1919. We loaned them \$65,000 for a period of five days; it was paid on July 28, 1919. That was loaned to them in order to take care of their pay roll, as we understood it.

We made the following loans to Wallace Downey personally: At our Staten Island branch, on October 31, 1918, we loaned him \$19,201.88, secured by Liberty bonds. On January 29, 1919, we loaned him \$18,718.69, secured by Liberty bonds. There were small payments made during the year 1919 on these loans, and the final payment made December 31, 1919.

Loans to Mr. Downey personally at our terminal branch:

On February 16, 1917, we loaned him \$7,500 on his own note, which was paid on March 16, 1917. On February 16, 1917, we discounted the note of the Century Steel Co. of America (Inc.) for \$2,802.93. This note was paid at maturity on April 17, 1917. On May 29, 1917, we loaned Mr. Downey \$20,000 on his own note; this note was renewed in part every 30 days thereafter, showing deductions of \$1,000 or \$500 or \$250. The balance of the note, amounting to \$2,000, was paid on September 15, 1919. On October 23, 1918, we loaned Mr. Downey \$2,400, against collateral of \$2,700 in fourth Liberty loan bonds. On January 31, 1919, we renewed this loan for \$2,000; that is, he reduced it \$400. We still carry this, or at least we carried this loan until August 9, 1920, when we increased it to \$3,000, and accepted \$2,000 of Victory Liberty loan notes as additional collateral.

That is complete, Mr. Chairman.

The CHAIRMAN. I show you this sheet marked "Downey Shipbuilding Co., special account," and ask you if the seventh item there should not have the year 1918 after it?

Mr. MALMAR. Yes, sir; it should have. Shall I correct that?

The CHAIRMAN. If you wish to correct that.

Mr. MALMAR. I would like to do so.

(The correction was made.)

The CHAIRMAN. Have you any questions, Mr. Kelley? I think that is all, Mr. Malmar.

(At this point the committee took a short recess.)

TESTIMONY OF MR. ROBERT I. LAGGREN—Recalled.

The CHAIRMAN. Mr. Laggren, when you were secretary of the cancellation and claims board did you make minutes of transactions of the board?

Mr. LAGGREN. When I first went there as assistant secretary they had a system of keeping verbatim records. We had court reporters in the employ of the Fleet Corporation who alternated and took verbatim records of the minutes.

The CHAIRMAN. That was when you went there as assistant?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. And was that continued when you became secretary?

Mr. LAGGREN. That was discontinued when the board moved to Washington.

The CHAIRMAN. So, of matter coming before that board in Washington, no verbatim records were kept?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Were any records or minutes of the meeting kept?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Who kept them?

Mr. LAGGREN. An assistant secretary was present at all meetings who had before him a calendar of all matters to be discussed at the meeting. Each board member had a book before him containing the case called for by the calendar. As each case was discussed and acted upon the assistant secretary took notes, and after leaving the meeting prepared a resolution of everything discussed which resulted in final action, and if it did not result in final action a short extract of the discussed was typed and kept right in our minute book.

The CHAIRMAN. If there was final action, no extract of the discussion was kept?

Mr. LAGGREN. Full resolution was then prepared, which would be much fuller than the extract.

The CHAIRMAN. Did the resolution contain any résumé of the discussion?

Mr. LAGGREN. It would not exactly contain a résumé of the discussion, but it would contain a résumé of the case.

The CHAIRMAN. Yes.

Mr. LAGGREN. If it was a claim—if you want any more you can ask me and I will give it to you.

The CHAIRMAN. Will you cite an instance now where a claim comes before the board for adjudication in which there is a controversy and the board reaches final action on it, and a resolution is drawn; will you just outline to the committee the procedure in such a case as that?

Mr. LAGGREN. First, the title page of the particular resolution—the title of the issue, claim of so-and-so; resolution passed by the board so-and-so. Then we have a whereas clause showing the contract with the contractor or the purchase order, showing what was purchased; then another whereas showing what was canceled, if it was canceled; another whereas showing what contractor owes and in any way claimed; then we would show his original claims against the amount recommended, and then you would have beneath it the resolution that in view of the facts set forth that to so-and-so be awarded such and such and such in payment of it; and if it was in full of all claims against the Fleet Corporation it would appear to be without any reservations. That would appear and that would be enough in itself, so that the attorney, with the resolution and with the case itself, could draw a contract covering the settlement.

The CHAIRMAN. Now, then, assume that no final action was reached upon a claim, would there be any resolution prepared?

Mr. LAGGREN. If it was—if no final action was reached and it was to be referred to the general counsel or to be referred to the board of trustees or referred back to the district adjuster, or any further action taken by an outside agency, there would be a further resolution prepared, therefore, that it be sent to so-and-so and so-and-so.

The CHAIRMAN. Then, in case no final action was reached, the only resolution would be for further disposition or investigation of the claim, but what minute would be made of it or what resolution would be made up covering that matter.

Mr. LAGGREN. There would be no resolution covering that matter unless the board members desired to have one made for their own personal use, in which case they might make them themselves as they went along; they always had a pad and papers and pencils in front of them for their use if there were any points they wanted to look up after, or something that they might direct the secretary to do so-and-so; they would make a memorandum of that, or if they wanted to just do it for their own information.

The CHAIRMAN. I have forgotten, Mr. Laggren, when you first went with the board as assistant secretary.

Mr. LAGGREN. July, 1919.

The CHAIRMAN. July, 1919?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. And who was chairman of the board at that time?

Mr. LAGGREN. Mr. Levi came in just about the same time I did. I went in there just as they were re-forming the board.

The CHAIRMAN. Who was Mr. Levi?

Mr. LAGGREN. He was a man picked out by the Fleet Corporation officials to head off the board. I understand he was loaned to the fleet by Hogg Island.

The CHAIRMAN. He was the Mr. Levi who was one of the officials of the American International at Hogg Island?

Mr. LAGGREN. I don't know whether he was an officer but he was employed by the American International.

The CHAIRMAN. Who was the chairman of the Shipping Board at that time?

Mr. LAGGREN. Judge Payne, I believe.

The CHAIRMAN. Now, were there cases handled by this board while you were there when this routine which you have described was not followed?

Mr. LAGGREN. You mean were cases ever handled wherein verbatim records were not kept during this period?

The CHAIRMAN. Yes, sir.

Mr. LAGGREN. No, sir; not to my knowledge.

The CHAIRMAN. And where no resolution, or the resolution which you have described was not drawn?

Mr. LAGGREN. No, sir; because no settlement or any cancellation claim could ever be made unless it was passed upon—among a number of other things, upon a resolution of the then cancellation claims and contract board.

The CHAIRMAN. In case final settlement was not arrived at when the case was taken up by the cancellation board, and a resolution was passed requiring a further investigation or further referring, what would happen when that claim came again before the board.

Mr. LAGGREN. It would be discussed fully what for, gone into thoroughly.

The CHAIRMAN. Would it always come before the board again?

Mr. LAGGREN. It would always come before the board again unless it was—unless the action that the board desired was not forthcoming; in such cases the board would not consider it because it was useless. We had to have information; if we didn't get it we didn't sit on the case. There may have been cases where, perhaps, I believe, they went to Washington and may have gotten a settlement over the construction claims board's head.

The CHAIRMAN. You know there were cases?

Mr. LAGGREN. I know there were cases of that kind.

The CHAIRMAN. Quite a few?

Mr. LAGGREN. Not very many; no, sir, they backed us up pretty well.

The CHAIRMAN. Well, can you give us any idea of how many cases that you can recall, not to pin you down, but to the best of your knowledge?

Mr. LAGGREN. No; I can not.

The CHAIRMAN. Whether 4 or 14?

Mr. LAGGREN. Except I must say they were infinitesimal in comparison with the cases passed.

The CHAIRMAN. As to number?

Mr. LAGGREN. As to number, yes.

The CHAIRMAN. And how about the amount involved?

Mr. LAGGREN. I don't believe there were ever—well, this is guessing—I think I do not believe there were very many important cases passed without a thorough discussion and a recommendation given by the construction claims board.

The CHAIRMAN. Now, after you passed these resolutions, or this resolution of the construction claims board, recommending a settlement, would you later have some information for your files of that board showing upon what basis the settlement was actually made thereafter?

Mr. LAGGREN. Absolutely, every step in the settlement, you could see in our records.

The CHAIRMAN. But the actual settlement, as I understand it, was not made by your board? You arrived at a basis of settlement and recommended it to the trustees of the Fleet Corporation or the Shipping Board proper?

Mr. LAGGREN. There were several changes in procedure. When I first went with the board the general manager of the corporation signed every one of our resolutions, and until he signed a resolution, approving it, no contract could be drawn covering a settlement.

The CHAIRMAN. I don't just get that, Mr. Laggren.

Mr. LAGGREN. Until the general manager of the corporation signed each resolution no contract could be drawn covering that settlement. In other words, the board could make settlements until it was blue

in the face, but the contractor could not get any money until the general manager of the corporation had approved the same.

The CHAIRMAN. You think that there may have been a very few cases where settlements were made in Washington, irrespective of the recommendation of the construction claims board?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Do you recall anything about the Whitehaven settlement?

Mr. LAGGREN. That was a settlement made after the board was in Washington. I recall something about that.

The CHAIRMAN. Well, now, what was there about that settlement?

Mr. LAGGREN. I know very little about it, except, I believe—there are gentlemen here who can correct me if I am wrong—the contractor's claim was based on extras, what we call claims for extras. They had frequent conferences with the construction claims board, but never could come to any agreement with them. We referred the matter to the board of trustees, and some agreement was made with the Whitehaven—with the Whitehaven Shipbuilding Co.—I think that is what it was called.

The CHAIRMAN. Without the recommendation of the board or without a resolution?

Mr. LAGGREN. Yes, sir; I do not believe—no recommendation of the board—wait until I get that straight. No settlement was made that I recall based upon the recommendation of the construction claims board.

The CHAIRMAN. See if I understand you; I am a little thick on some of these things. In the Whitehaven case, while the claimants appeared before the construction claims board, you had frequent conferences with them?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. No resolution recommending a settlement upon a definite basis was ever passed by the board, which was the authority for drawing a contract or settlement?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Do you remember how much was involved in that case, offhand?

Mr. LAGGREN. No; I do not; it was not very much, as settlements went with ship contractors; it was something over \$100,000; it was not very much of a claim.

The CHAIRMAN. Do you know who were the members of the Whitehaven Co.?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Where was their yard located?

Mr. LAGGREN. I think on the eastern shore, opposite Baltimore; somewhere around in there.

The CHAIRMAN. Do you know how many ships they constructed?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Do you recall the settlement in the Merrill-Stevens case?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Was that handled by the full board?

Mr. LAGGREN. Yes, sir; that was handled by the full board.

The CHAIRMAN. The settlement was made as a result of the resolution passed by the board?

Mr. LAGGREN. Now, that I can not exactly say. I believe it was handled by our full board, and then went—before settlement was made, I believe it was carried to the board of trustees and settlement was made by the board of trustees. That was dragging along so long that I don't believe the construction claims board ever passed a resolution of settlement. It may be; if so, it is on record.

The CHAIRMAN. Do you recall how much that involved?

Mr. LAGGREN. No; I do not.

The CHAIRMAN. When these claimants would appear before this construction claims board, would they appear personally or by counsel?

Mr. LAGGREN. Either way.

The CHAIRMAN. How did the Whitehaven Co. appear?

Mr. LAGGREN. Both ways.

The CHAIRMAN. Who was their attorney?

Mr. LAGGREN. I don't remember who he was.

The CHAIRMAN. Who appeared for the Merrill-Stevens Co.?

Mr. LAGGREN. There was a long line of people appeared for Merrill-Stevens. Mr. Payne was there all the time; there were so many of them it was pretty hard to keep track of them.

The CHAIRMAN. Mr. Payne was the officer of the Merrill-Stevens Co.?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Now, do you remember anybody else?

Mr. LAGGREN. I remember ex-Gov. Folk—was it Missouri or Wisconsin?

The CHAIRMAN. Missouri. Joseph W. Folk?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Missouri?

Mr. LAGGREN. Yes.

The CHAIRMAN. Anybody else that you recall?

Mr. LAGGREN. Not without prompting, I don't.

The CHAIRMAN. Well, there was in this case as in most cases, I assume, there was a substantial difference between the amount which the board felt should be paid and the amount claimed by the contractor?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Do you know what the difference was in this case of Merrill-Stevens?

Mr. LAGGREN. No; I do not.

The CHAIRMAN. Do you recall in connection with the Merrill-Stevens case, Mr. Laggren, any loss on account of bonds which were deposited as security?

Mr. LAGGREN. No, sir. You are asking me questions now on the details of the case, which I can not answer. I could take a wild guess; yes; at things, but there are other men here who know every detail, but I could not answer these questions.

The CHAIRMAN. As I understand you now, you have no reason to look at the records of this board?

Mr. LAGGREN. No.

The CHAIRMAN. And they are not in your custody?

Mr. LAGGREN. No; I have not seen them since I left there.

The CHAIRMAN. I am only asking, of course, for your recollection, and if you haven't any, why, of course, we can not get the informa-

tion. In cases of settlement, would your board sometimes call for reports from the department of investigation?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. What would be the object of that?

Mr. LAGGREN. Well, we would probably have called to our attention by some one, it may have been by the department of investigation or by the auditing department, that things were not as they appeared to be on the surface. Then we felt it our duty to go to the department of investigation and see if they could get or give us any information.

The CHAIRMAN. That is, if they gave you any information, what use would you make of it?

Mr. LAGGREN. We would make every possible use that could be made of it, according to the kind of information it was.

The CHAIRMAN. Do you recall the settlement with the Terry Shipbuilding Corporation?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Was that made as a result of a resolution passed by the construction claims board?

Mr. LAGGREN. Handled the same way as Merrill-Stevens. Made on research and as a result of the discussions and work of the construction claims board, and, if my memory serves me right, on recommendations sent by the construction claims board to the board of trustees.

The CHAIRMAN. Without passing a resolution?

Mr. LAGGREN. There may be a resolution, you understand—not a final one—definitely making a settlement.

The CHAIRMAN. Not a final resolution authorizing the drawing of a contract of settlement?

Mr. LAGGREN. No.

The CHAIRMAN. A resolution making certain recommendations?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. As to allowing or disallowing certain of their claims?

Mr. LAGGREN. A good many cases were in the latter days handled by us as the board of trustees got more familiar with the procedure.

The CHAIRMAN. Do you recall, in connection with the Merrill-Stevens negotiations before the claims board, any controversy over the back dating of a certain document?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Don't remember that?

Mr. LAGGREN. No; our legal division would know more about that.

The CHAIRMAN. Did you have an attorney or counsel or solicitor or somebody advising you?

Mr. LAGGREN. Yes, sir. In Washington we had a general counsel right with us.

The CHAIRMAN. Who was he?

Mr. LAGGREN. In the beginning, Col. McGovern was acting as both general counsel and chairman of our board. Then later Col. Goff sat as general counsel and chairman of our board. Then when Mr. Talbert was made chairman Col. Goff moved up one flight and was general counsel, and was at our hand always.

The CHAIRMAN. So in the beginning Mr. McGovern was not only counsel but chairman of the board?

Mr. LAGGREN. Yes.

The CHAIRMAN. Mr. Frank McGovern?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. If you had nothing called to your attention in connection with a settlement of a claim which you thought required looking into, would you call upon the department of investigation for any report?

Mr. LAGGREN. If it was information of the nature which required investigation by the department of investigation; yes, sir.

The CHAIRMAN. You would?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Now, suppose you didn't have any such thing as that called to your attention, or in looking over the claim nothing upon its face appeared to require investigation, would you then call for a report from the department of investigation?

Mr. LAGGREN. No, sir.

The CHAIRMAN. So that may be action was taken by the board upon claims, either recommending them for settlement or passing resolutions authorizing contract of settlement to be drawn, in cases where investigations had been made by the Department of Justice and a report filed which was not called for by your board, or which was not presented to your board?

Mr. LAGGREN. That might very well have been the case; yes, sir.

The CHAIRMAN. So as a part of the procedure which you have outlined there was no requirement, so far as you know, that reports from the Department of Justice, department of investigation, should be furnished the construction claims board, irrespective of whether they requested it or not?

Mr. LAGGREN. No, sir. The department of investigation was never set up to be able to render any such service as that. I tried it out at one time. I went down one time, and I wanted to try to tie up our board; I knew that possibly some time things might be investigated, and so I sent down a daily calendar to the department of investigation in the attempt to see whether they could tie in, but it resulted only in my sending down the daily calendar; that is all I ever heard of it.

The CHAIRMAN. Whom did you send it to?

Mr. LAGGREN. I sent it down to Mr Meehan's office.

The CHAIRMAN. In Washington?

Mr. LAGGREN. Yes, sir; he was on the floor beneath me.

The CHAIRMAN. Your purpose, Mr. Laggren, was to have Mr. Meehan look over that daily calendar, consult his files, and if he had information upon any of those matters appearing upon that calendar to transmit it to your office?

Mr. LAGGREN. Absolutely; that is what we wanted.

The CHAIRMAN. But you never got that information?

Mr. LAGGREN. I won't say never; once in a while we may have got something out of it. They were not set up to do it; they did not have the force; they didn't have the files in the right shape to do so.

The CHAIRMAN. At the time Mr. Meehan was in charge at Washington, his force had been considerably reduced, hadn't it?

Mr. LAGGREN. I understood so.

The CHAIRMAN. Did you have any knowledge, in your capacity as head of the supply and sales, of the provisions of the new Bardy sales agency contract?

Mr. LAGGREN. No.

The CHAIRMAN. Well, who made that contract?

Mr. LAGGREN. Mr. H. B. Miller, director of the supply and sales division, with the approval of the board of trustees.

The CHAIRMAN. Were not you consulted with reference to it?

Mr. LAGGREN. No, sir; that involved entirely material on the west coast.

The CHAIRMAN. I beg your pardon. That is the new contract I asked about.

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. And none of it is, of course, in your district?

Mr. LAGGREN. No, sir; there is one of the stipulations—I don't know whether the contract is drawn yet—but one of the stipulations is that no material can be sold even by Mr. Bardy east of a certain point, so that he can not enter into competition with us in the East.

The CHAIRMAN. Do you know anything about the provisions of the American Lumber sales contract?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Does that involve materials in your district?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Were you consulted about that?

Mr. LAGGREN. No, sir; it was made long before my appointment.

The CHAIRMAN. Have you furnished materials to the company under the contract—has it been delivered?

Mr. LAGGREN. Out of my district?

The CHAIRMAN. Yes.

Mr. LAGGREN. Yes, sir; but that contract is handled in Washington, through a lumber representative; that is all he does, take care of the American Lumber sales contract.

The CHAIRMAN. Does he make no report to you?

Mr. LAGGREN. No; he makes a report direct to the director of the supply and sales division.

The CHAIRMAN. Even though the material comes out of your district?

Mr. LAGGREN. Yes, sir; we watch it. For instance, if we have a yard in our district which we have cleaned out, and the only thing remaining in that yard is American Sales lumber, as long as it stays there we have to keep a storekeeper there and have some watchman around there, and then I immediately get busy and see to it to get that lumber out of there right away. We don't want that there, because it is an expense to us. That is the only way I run up against the American Sales contract.

The CHAIRMAN. How do you know with reference to lumber in your district which belongs to the American Lumber Sales Co. and which does not?

Mr. LAGGREN. The American Lumber Sales contract—although I have only read it once, and then some time ago—specifies the kind of lumber; it classifies it.

The CHAIRMAN. And have you had the lumber classified in your district so as to ascertain which comes within their contract and which does not?

Mr. LAGGREN. That was all classified before I took charge.

The CHAIRMAN. Before?

Mr. LAGGREN. Yes.

The CHAIRMAN. You have the records?

Mr. LAGGREN. Yes; we can get the records. If they are not in my office there, the record is somewhere obtainable.

The CHAIRMAN. What I am after, Mr. Laggren, you have, although you were not there when the contract was made, you have some record available, so that if half a dozen trucks of the lumber sales company go down to a plant to load up with lumber, you have got some record, so that you can tell whether they are putting lumber on there which has been previously classified as coming within their contract or something that you should have.

Mr. LAGGREN. Absolutely. Yes, sir; every yard has a man who knows every stick of lumber in it that belongs to the American Lumber Sales Co.

The CHAIRMAN. And it has all been inventoried and appraised and classified?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. You say each yard has this list?

Mr. LAGGREN. Yes.

The CHAIRMAN. Haven't you any record at all in your office?

Mr. LAGGREN. No, sir; it is in the home office.

The CHAIRMAN. Washington?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. The home office has the inventories and does all the billing, you say?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. And the records that you have are really in this respect, in your office I mean, not of much use?

Mr. LAGGREN. No, sir; we do not need them.

The CHAIRMAN. Why not?

Mr. LAGGREN. Because the American Lumber Sales contract in its execution is watched by the home office by a special lumber representative.

The CHAIRMAN. Who is he?

Mr. LAGGREN. I believe he is a man named Patchel; I am not sure of his name even.

The CHAIRMAN. Well, then, your office would have no way of telling from your own record just what lumber in a certain plant belonging to the American Lumber Sales Co., under its contract, and what lumber in that plant you had under your jurisdiction?

Mr. LAGGREN. Yes, sir; we know what lumber we have got under my jurisdiction; we know it.

The CHAIRMAN. You do?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Got a list of all of it?

Mr. LAGGREN. Yes.

The CHAIRMAN. Then you act upon the presumption if there is any other lumber there that is not on your list it must belong to the American Lumber Sales Co.?

Mr. LAGGREN. Well, it is marked the American Lumber Sales Co., and if there is some lumber down there that don't appear on my list

and does not appear on the American Lumber Sales list we might soon find out whose it is.

The CHAIRMAN. How?

Mr. LAGGREN. We send a claim agent down there to check it up and see if it belongs to the American Lumber Sales Co. or whatever class of lumber sales it is. It might be a case of wherein the checking over of the lumber it was a pile of lumber belonging to the American Lumber Sales Co. and which had not been marked, and an examination of the lumber would easily tell, and tell at once, where it belonged; and that would simply be because it was skipped through error; but it is a very easy matter to tell who it belongs to.

The CHAIRMAN. Has your organization been used by the American Lumber Sales Co. to sell or resell any of its lumber?

Mr. LAGGREN. No; not to my knowledge.

The CHAIRMAN. You don't know whether any of your force in the yard have engaged in that?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Have you ever been told or has anybody called anything like that to your attention?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Do you deliver the lumber, or do you have charge of the delivery of this lumber to the American Lumber Sales Co.—that is, under your men?

Mr. LAGGREN. The storekeeper at the yards know of everything that goes out.

The CHAIRMAN. Your checkers.

Mr. LAGGREN. Yes.

The CHAIRMAN. Do you know whether he delivers it to the customers of the American Lumber Sales Co.?

Mr. LAGGREN. No, sir.

The CHAIRMAN. You don't know, you mean?

Mr. LAGGREN. No; I don't know; I know he simply turns over the jurisdiction from us to the American Lumber Sales Co., and I presume if the American Lumber Sales Co. said "Deliver this much material to this man, who will be up with his truck here to-morrow morning at 10 o'clock," he probably would do it; that seems to me to be all right.

The CHAIRMAN. You mean if he bought some lumber from the American Lumber Sales Co. and the sales company notified your yard man that he was coming down for some of your lumber to-morrow morning with my trucks, it would be all right to deliver such lumber as the sales company designated to me?

Mr. LAGGREN. If the accounting procedure and all was taken care of properly; yes, sir.

The CHAIRMAN. Is that done?

Mr. LAGGREN. Yes; that is done.

The CHAIRMAN. And your man watches that, does he?

Mr. LAGGREN. Yes.

The CHAIRMAN. Do you know whether there are men employed by the American Lumber Sales Co. who participate in any way in the negotiations leading up to the awarding of this contract?

Mr. LAGGREN. I know of no such men; no, sir.

The CHAIRMAN. Do you know of the Rogers hull removal contract? Have you anything to do with that?

Mr. LAGGREN. In a general way I know about that; yes, sir.

The CHAIRMAN. Just what sort of a contract is that, Mr. Laggren?

Mr. LAGGREN. That is a contract that was discussed at some length in the cancellations claims and contracts board before it became known as the construction claims board; that is how I came to know about it. We were having an enormous amount of trouble trying to find out what in the world to do with the three-quarters, or a quarter, or a one-eighth, or a one-half constructed hull. We could not sell it to anybody; we could not give it away; we could not make the contractor take it off our hands; we could not do anything with it.

Some contractors were trying to charge us up enormously for the vessels partly constructed in their yards and to get the hull off the ways. It was very important for us to get them off the ways, and these contractors stuck at it, and attempted to prove to us by elaborate statements and figures that it was impossible to get them off at a less cost than \$18,000, and they wanted, they suggested no less than \$2,000 for profit. This man Rogers came on from the Pacific coast, and I believe he made an offer to the general manager's assistant, a proposal, that he should take these hulls off the ways and make a profit if we would pay him \$5,000 a hull. And after very carefully investigating, consensus of opinion seemed to be that he was crazy. But there was some doubt at some time whether they should even enter into such a contract, because they thought it was just a case of where he would fall down on it, and in the meantime we would not be entering into negotiations to get rid of the hulls. Finally it was decided to let him take a crack at it, if he could. And he started in, and had the reputation of being one of the canniest shifting men on the Pacific coast, and he made good on his contract, and everybody was glad to see him make good, because it saved the Fleet Corporation an awful pile of money.

The CHAIRMAN. How?

Mr. LAGGREN. We could not get rid of the hulls; we didn't have the working force. It meant that somebody had to get right down on his hands and knees on the proposition and get rid of those hulls—enter into all sorts of bickering and negotiations with the contractors in whose yards the hulls were; get practically a wrecking crew and get them off somehow, and I understand that he took some out and sunk them, and he dynamited others, and he sold others and made a good profit, too; but we couldn't do it.

The CHAIRMAN. That is the only way you could dispose of it?

Mr. LAGGREN. It was the best way that ever came up for disposing of these hulls.

The CHAIRMAN. Had settlements been made with all these contractors?

Mr. LAGGREN. The settlements had been made with some of them.

The CHAIRMAN. With those that had not been, was there anything to prevent the disposition and removal of these hulls being one of the terms of the contract of settlement?

Mr. LAGGREN. At the contractor's price.

The CHAIRMAN. Why at the the contractor's price?

Mr. LAGGREN. They would not accept settlement.

The CHAIRMAN. You mean to say that if a contractor wanted \$20,000 for the removal of that hull, and no settlement has been made

with him on his contract, that unless he got \$20,000 covering the hull removal matter, he would not settle his contract?

Mr. LAGGREN. I guess the records would probably show we got some of them down as low as 10.

The CHAIRMAN. And unless they were allowed that they would not settle?

Mr. LAGGREN. No; they would not.

The CHAIRMAN. Well, Mr. Rogers had sold a lot of these hulls, hadn't he?

Mr. LAGGREN. I understand he has; yes, sir.

The CHAIRMAN. The money for them going to him, doesn't it?

Mr. LAGGREN. Yes, sir; they are his hulls.

The CHAIRMAN. Is there any reason why the Shipping Board might not have been able to have sold them?

Mr. LAGGREN. They might have been if it would have paid them to have kept them; but it would have paid them to attempt to drop other things and go into that minutely and see what they could do with them. They might also have been able to sell them.

The CHAIRMAN. How many of these hulls were there?

Mr. LAGGREN. I don't know, I have forgotten the number.

The CHAIRMAN. There were quite a few, though, on the Pacific coast?

Mr. LAGGREN. I believe so; I believe there were quite a few of them.

The CHAIRMAN. Is there any record in your office of these?

Mr. LAGGREN. There is a record in the legal division which will show every hull.

The CHAIRMAN. You mean the legal division of your office?

Mr. LAGGREN. No; the Fleet Corporation, it is all one legal division, the legal division of the Emergency Fleet Corporation.

The CHAIRMAN. I see. Well, then, what it amounted to was to pay Mr. Rogers \$5,000 to remove a hull and give him the hull and permit him to sell it if he wanted to and pocket the proceeds?

Mr. LAGGREN. If you will add on to that: And relieve the Fleet Corporation of a burdensome, expensive obligation, you just about get it; yes, sir.

The CHAIRMAN. And relieve the Fleet Corporation of a burdensome, expensive operation?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. And deprive the Fleet Corporation of whatever revenue might have been secured for the selling of the hulls?

Mr. LAGGREN. The Fleet Corporation would never have gotten any revenue out of these hulls.

The CHAIRMAN. Why?

Mr. LAGGREN. Now you are getting me into more opinion than anything else.

The CHAIRMAN. I want your opinion. You are the head of the supply and sales division; here is quite a lot of property of the Fleet Corporation that has been disposed of in a manner which I think has not been applied with respect to any other property; at least, the committee has not thus far heard of any similar cases; and I would like your opinion as to why the Fleet Corporation could never have gotten any proceeds.

Mr. LAGGREN. Because it would take a small organization with an executive at its head who had nothing else to do for the moment but concentrate all his energy and put all his wits and all his mental resources on getting everything out of these hulls possible.

The Fleet Corporation has not had time, and no big corporation in business, such as the Fleet Corporation is, would have. They would need to do practically as any other large corporation would need to do; they would be obliged to have gone to another smaller concern or have formed a smaller concern to whom they could have said, "Go ahead and relieve us of this operation," well and good, we want to get relieved of the obligation.

I can cite as an example two hulls that were not included in the Rogers contract; they were built in a yard up in Maine somewhere. We tried to find buyers for the hulls; I don't know how far they were completed. We got one man finally to offer \$4,000 for both hulls. He, I suppose, thought he was going to go out and make a wonderful profit on the two hulls after paying \$4,000 for them. Of course, \$4,000 would be but a small part for even a partly constructed hull, but before we could clinch the bargain with him he backed out and disappeared, as far as that bargain was concerned, and the hulls are sitting there yet and we are still under the obligation of selling them and getting the hulls off the property. We can not get rid of the hulls; they are right there. We have had bids of from \$10,000 to \$20,000 for removing these two hulls.

It does not take many cases of that kind to show that when we got rid of our wood hulls in contractors' yards, especially where yards had to be turned back to municipalities and on leased ground, and where naturally we would be liable for storage and rent and for what not, and when we could get rid of that obligation it was a fine stroke of business; and when all the practical shipping men in the Fleet Corporation were skeptical of the fact that the contract could be even carried out by Rogers, and I know, from hearing the conversation that took place between the members themselves, they were skeptical as to whether or not they should give it to him, because they said he never could go through on it and it would simply be a case of having a bad tangle left on our hands. We entered into this contract with this man, and he happened to be a pretty hard-headed, diplomatic man, and he went into a good many yards that were holding out on us for big sums of money and took the hulls off their ways. And in some cases they absolutely refused to let him enter a yard. He overcame all of this sort of difficulty and got the hulls off the ways.

The CHAIRMAN. So, the result was this: That you employed Mr. Rogers, at \$5,000 per hull, to get rid of these hulls, and if you can sell them, put the money in your pocket?

Mr. LAGGREN. Yes, sir; he to provide his own forces and his own machinery and everything else.

The CHAIRMAN. And in a number of instances he did not have to lift his finger; he sold them to a man—he sold them to a company that came in and took them out.

Mr. LAGGREN. I can not answer that.

The CHAIRMAN. You don't know that?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Never followed up the disposition of the hulls?

Mr. LAGGREN. No, sir.

The CHAIRMAN. That is not in your jurisdiction?

Mr. LAGREN. That was not in our jurisdiction at all.

The CHAIRMAN. Now, a great many of these wooden hulls were in yards that the Government had built, weren't they?

Mr. LAGGREN. They may have been.

The CHAIRMAN. Don't you know?

Mr. LAGGREN. No, sir; I could not check up on what yards they were in.

The CHAIRMAN. Well, you know there were but very few wooden-ship yards in actual operation at the time the Shipping Board started on this building contract, don't you?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. And you know that the Government did build a good many wood-ship yards?

Mr. LAGGREN. Yes; advanced money for the building of the yards.

The CHAIRMAN. And they owned the yards in some instances?

Mr. LAGGREN. Well, I may be wrong in confessing this, but I don't remember. It may have slipped my mind, and if I thought of it, it might come back to me; but at the present moment, all I can say is I don't know whether we actually owned the wood-ship yards or not.

The CHAIRMAN. Do you know what previous connection Mr. Rogers had with shipbuilding matters?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Was there any requirement, as you recall, in the contract that Rogers should report the receipts for the sale of these hulls?

Mr. LAGGREN. I don't know.

The CHAIRMAN. You say some of them he has taken out and sunk or dynamited?

Mr. LAGGREN. That is all hearsay; that is what I understand.

The CHAIRMAN. Do you recall whether there was any difference in the price of the hull, depending upon the stage of completion?

Mr. LAGGREN. I think I can safely say it was not; it was a straight \$5,000 a hull?

The CHAIRMAN. The Shipping Board has got a lot of uncompleted hulls anchored around in various parts of the country that they have been unable to sell, haven't they?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. You think if you paid Mr. Rogers \$5,000 a hull and let him put his proceeds from the sale in his pocket, that he could dispose of them, too?

Mr. LAGGREN. Well, that is not an analagous case at all. They would never have made any such contract as that.

The CHAIRMAN. Why isn't it?

Mr. LAGGREN. These hulls are afloat. If we can find a customer, we can deliver them.

The CHAIRMAN. They are not completed, though?

Mr. LAGGREN. No, sir; but they are an entirely different proposition.

The CHAIRMAN. But these hulls were on the ways, and if you could find a customer you could deliver them, couldn't you?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Do you know whether the Shipping Board made any attempt to find customers for these? Did they set up any organization or confer jurisdiction upon any of its branches to go out and try to dispose of these hulls, or did Mr. Rogers come in and say, "You got a lot of hulls around here; you are unable to get rid of them; the contractors won't settle with you; I will get them off your hands; you give me \$5,000"?

Mr. LAGGREN. You asked me a question which I shall have to answer generally. I can say, however, that the problem of disposing of those hulls, though, has been on the minds of the men who were directing the affairs of the Fleet Corporation for a considerable time, and that undoubtedly every effort had been made to attempt to dispose of these hulls to advantage.

The CHAIRMAN. Now, then, will you tell me the names of some of the gentlemen who had this matter on their minds, under whose jurisdiction they came?

Mr. LAGGREN. I can give you titles and some names.

The CHAIRMAN. If you will, please.

Mr. LAGGREN. The manager of the ship construction division.

The CHAIRMAN. Who was he?

Mr. LAGGREN. I don't know who he was, they have changed. Mr. G. L. Ackerson, then vice president and general manager of the Fleet Corporation, and Mr. Frick, who is a practical shipbuilding man, and Mr. Ackerson, assistant. That is about as definite as I can get on that subject.

The CHAIRMAN. Did you have anything to do with the southern scrap material contract?

Mr. LAGGREN. No, sir.

The CHAIRMAN. It is outside of your district?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. And the material that is being disposed of under that contract is not within your jurisdiction?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Now, have you had any occasion to compare the appraisals made by the traveling engineers under the plant construction division, with the appraisals that are made for your division?

Mr. LAGGREN. No, sir. You mean comparing plant appraisals with material appraisals?

The CHAIRMAN. Yes.

Mr. LAGGREN. No, sir. Plant disposal does not come under the jurisdiction of the supply and sales division. At least, not under the district.

The CHAIRMAN. Now, are all the sales made through your department made at private sale or made by calling for bids mostly?

Mr. LAGGREN. We make some sales in every possible way, just as any other sales organization would. Some of our sales are private negotiations, some of our sales are bids solicited, sealed bids, opened in the presence of all the bidders.

The CHAIRMAN. What determines which it should be?

Mr. LAGGREN. The class of material frequently, the quantity of material. When we can get one buyer to take a small group of material at a good price we are satisfied it would not pay us to circu-

larize. When we have got a large amount of material which we feel it would not be fair at all to attempt to negotiate with one man, because we must have the combined offers, the individual offers of a good many firms, then we circularize.

The CHAIRMAN. There is a Barde contract, is there, in existence, which does cover this material in your district?

Mr. LAGGREN. Yes sir.

The CHAIRMAN. Does that involve fabricated steel?

Mr. LAGGREN. I understand that it does, as it stands, involve fabricated steel.

The CHAIRMAN. There was some controversy about that, wasn't there, at some time?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. How was it determined, Mr. Laggren?

Mr. LAGGREN. Will you let me give a little general discussion on that?

The CHAIRMAN. I wish you would.

Mr. LAGGREN. I will show you why I can not give you the details on it. That contract was made many months ago, before my connection with the supply and sales division, and is at present in its interpretation subject to the home office jurisdiction. I have in my district a man who has done nothing but handle—I won't say done nothing, but one of his functions is to handle the sale under the Barde contract. Nobody else handles it. His interpretations of that contract, which show him what steel is to be delivered, he keeps track of shipments, and all that sort of thing on it, and he goes to the home office for that interpretation. So that the district director, or as district director, I have absolutely no jurisdiction over the Barde contract.

The CHAIRMAN. Now, do you remember whether there was a committee of three appointed to construe that contract?

Mr. LAGGREN. There was a committee, but I don't know whether it was a committee of three. There was a committee formed.

The CHAIRMAN. Do you know whether or not Mr. Weaver was a member of that committee?

Mr. LAGGREN. Yes, sir; he was.

The CHAIRMAN. Was the contract construed in favor of the Barde Co.?

Mr. LAGGREN. In some respects it was, and in some respects it was not.

The CHAIRMAN. In its final analysis, it was favorable to their contention, wasn't it?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. So that was that while Mr. Weaver was acting as adviser on steel?

Mr. LAGGREN. That was while Mr. Weaver was a full-fledged member of the construction claims board.

The CHAIRMAN. And how long after that did he become associated with the Barde Co.?

Mr. LAGGREN. I could not give you a definite figure, because it never stuck in my mind—a month or so.

The CHAIRMAN. Within a few weeks?

Mr. LAGGREN. I would not say "a few weeks." I think it is too close. I would say a month or so.

The CHAIRMAN. A month, or perhaps six weeks?

Mr. LAGGREN. A month, or perhaps six weeks?

The CHAIRMAN. Now, were you consulted with reference to the controversy about what should constitute fabricated steel and what should not? Did they ask you to give your views in that matter?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Well, did you have any views in the matter?

Mr. LAGGREN. No, sir.

The CHAIRMAN. Do you know what the principal question was?

Mr. LAGGREN. No, sir; I do not.

The CHAIRMAN. Have you been advised as to what the determination was as to the interpretation?

Mr. LAGGREN. No, sir; there was a supplemental agreement drawn, which I have never read.

The CHAIRMAN. And how are your representatives in the yards disposing of this material?

Mr. LAGGREN. Under direction from Washington. The disposition of claims all go into the home office.

The CHAIRMAN. No records in your office to show?

Mr. LAGGREN. Yes, sir; there are records, but I must confess that I don't even know exactly what those records are. I have a gentleman here whom I understand you are going to put on, who can possibly tell you what those records are.

The CHAIRMAN. He is your assistant, I take it?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. And he has supervision over that matter?

Mr. LAGGREN. No, sir; he had not supervision over the Barde contract at all, except that he has been in the district longer than I have and probably knows what records we have on the Barde contract.

The CHAIRMAN. Well, there are some matters, then, affecting the material and sales of materials that are in the yards in your district that have been handled direct through Washington, and all you know is after the decision is made there you are informed, and you are governed accordingly.

Mr. LAGGREN. I am governed accordingly, if I think it is all right. If I don't, I will make my objection.

The CHAIRMAN. Have you made any objections with reference to the Barde contract?

Mr. LAGGREN. No, sir; I do not believe there have been any questions of dispute up since I have been in the district; if they have, they have never come to my attention.

The CHAIRMAN. Do you know whether or not, as a result of the Barde contract and the supplemental agreement interpreting or construing the phrase "fabricated material" has resulted in leaving on the hands of the Fleet Corporation a large quantity of material which might profitably have been included in the original contract?

Mr. LAGGREN. I don't believe that question has been definitely decided yet on that point of fabricated steel.

The CHAIRMAN. You think that this supplemental agreement did not definitely decide it?

Mr. LAGGREN. No; I think that was on another point. I think that was on loading and on lengths. I don't think it was on fabricated steel. I don't believe it has been settled yet.

The CHAIRMAN. You have nothing to do with amortization of plants, do you?

Mr. LAGGREN. No, sir; not any more.

The CHAIRMAN. Did you when you were in the construction claims division?

Mr. LAGGREN. The construction claims board had that thing to fight all the time.

The CHAIRMAN. Of course, there was a wide variance between the board and the various parties upon that?

Mr. LAGGREN. A tremendous amount; yes, sir. That was and always has been a controversy, and to-day it is the big controversy on the big ships, as you know.

The CHAIRMAN. You said that when you took charge of your district, you reduced your force considerably and got rid of inefficient men?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Were there a number of inefficient employees?

Mr. LAGGREN. Yes, sir; there were lots of men on there, and clerks of various kinds who did not have enough to keep them working up to full speed all the time, in my estimation, and on my principle, in running an organization, it is to double up the work on the efficient men and drop those that are not and help those out that are efficient with an increase of salary, if we can slip it past the Board of Trustees. That is my principle of organization.

The CHAIRMAN. That is, keeping the force that you have, working, keeping them all busy?

Mr. LAGGREN. Absolutely; keeping them all up to the top notch; if you don't, they fall back.

The CHAIRMAN. How much did you reduce your force when you came in?

Mr. LAGGREN. Reduced it, approximately, \$95,000 so far.

The CHAIRMAN. In salaries, you mean?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Is that a year or what?

Mr. LAGGREN. That is the yearly salaries. Of course, we haven't very many highly paid men.

The CHAIRMAN. How large a force have you got, Mr. Laggren?

Mr. LAGGREN. Somewhere in the neighborhood of 157. I have got a few figures here [consulting paper]. No; I have not got my figures here, but we have got in the neighborhood of 150 or 155 employees.

The CHAIRMAN. How many do you think you had before you made this \$95,000 reduction?

Mr. LAGGREN. Over 200.

The CHAIRMAN. Were they mostly in your home office, or were they scattered around through the district?

Mr. LAGGREN. All over, sir. New York, Chicago, Philadelphia, have been my principal points of reduction. Then I have cut off the entire pay rool in a good many yards by making drives and disposing of the material in those points, so we could stop the overhead right here, that means the eliminating of guards and storekeepers, low-paid men, but still they all pile up the overhead.

The CHAIRMAN. Have you any yards in your district where material is still arriving that was ordered before the contract was canceled?

Mr. LAGGREN. You mean contractors shipping building yards?

The CHAIRMAN. Yes.

Mr. LAGGREN. I don't know.

The CHAIRMAN. You don't know?

Mr. LAGGREN. I don't know whether there is any more material arriving on original purchase orders. There may be some. There is still a remnant of the production and inspection branch left in my outfit; it is almost cut down to a minimum, but we happen to have some pretty reliable men and I understand from the head of it in my office that he expects to be through in a month or so. I should judge there are perhaps dribblets of stuff that are coming in, perhaps a very little.

The CHAIRMAN. When you first took charge, was material still arriving at the yards?

Mr. LAGGREN. No; I think that that has just about been stopped.

The CHAIRMAN. How long have you been in charge?

Mr. LAGGREN. Since October 1.

The CHAIRMAN. This year?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Perhaps we will take a recess here, it is nearly 1 o'clock, and if there is no objection we will take a recess to 2 o'clock.

(Recess to 2 p. m.)

AFTER RECESS.

TESTIMONY OF MR. ROBERT I. LAGGREN—Resumed.

Mr. KELLEY. Before your present employment, Mr. Laggren, you were the secretary of the claims committee of the Emergency Fleet Corporation?

Mr. LAGGREN. Yes, sir.

Mr. KELLEY. How long had you held that position?

Mr. LAGGREN. Since July, 1919.

Mr. KELLEY. And had you been with the committee in some other capacity before that—were you an assistant secretary, or something before you were secretary?

Mr. LAGGREN. Allow me to correct myself: You asked me how long I have been secretary?

Mr. KELLEY. Yes.

Mr. LAGGREN. Since February 1, 1920.

Mr. KELLEY. And before that you were assistant secretary from what time?

Mr. LAGGREN. From July, 1919.

Mr. KELLEY. And was that your first service with the Shipping Board?

Mr. LAGGREN. Yes, sir.

Mr. KELLEY. What was your experience before that, immediately; where did you come from to the Shipping Board?

Mr. LAGGREN. From the law firm of Breed, Abbott & Morgan.

Mr. KELLEY. Where is that firm located?

Mr. LAGGREN. They are located at 32 Liberty Street, New York City.

Mr. KELLEY. Did the personnel of the claims committee change much during the time you were there?

Mr. LAGGREN. Yes, sir.

Mr. KELLEY. Now, just run along through that, so far as your memory will serve you, and tell us who was on the committee from the start.

Mr. LAGGREN. When I first went with the board Mr. Levy was chairman of the board. The other members were Mr. Weaver, Mr. Murdock, Mr. Meigs, and Mr. Lord. That was a committee of five, of which Mr. Ackermom, then vice president and general manager, was the sixth, except that he was ex officio. Shortly after that Mr. Lord left us and the committee continued to sit with Mr. Levy, Mr. Weaver, Mr. Murdock, and Mr. Meigs. Mr. Levy left us and a captain in the Navy was designated as chairman—I forget his name—he never actually sat in an official capacity, and Mr. Talbert came from the legal division as a member of the board. So that the really active board was then Mr. Talbert—Mr. Talbert came before Mr. Levy left. When Mr. Levy left the active board was Mr. Talbert, Mr. Weaver, Mr. Murdock, and Mr. Meigs, up until the time we moved to Washington.

When we went to Washington Col. McGovern was designated as chairman and joined us there, and Mr. Weaver and Mr. Talbert comprised the other two members of the board. So there really have not been very many changes and through the whole existence of the board we have had men on it who were on it from its inception.

Mr. KELLEY. Let us see. Who is on the board now who was on there at the beginning?

Mr. LAGGREN. Mr. Talbert.

Mr. KELLEY. I thought he came on a little later, you said.

Mr. LAGGREN. From the beginning? Oh, no one is there now who came on from the beginning. But that is very recently.

Mr. KELLEY. But no one is there now who was on even when you went there first?

Mr. LAGGREN. No.

Mr. KELLEY. I suppose in a case of the board changing like that a good deal of the work of referring cases, the Government's side of the claims, fell to you as secretary?

Mr. LAGGREN. No, sir. We had a very excellent working system for the preparation of the cases. I had supervision, to a degree, over it, but I had nothing to do with the actual work. My duties were executive and administrative with the board, to see that everything kept functioning, and that the stuff kept coming in right.

Mr. KELLEY. Did you not act somewhat in an advisory capacity on the claims themselves?

Mr. LAGGREN. Very seldom, except when called upon by the board.

Mr. KELLEY. Well, naturally, would they not quite frequently ask you for your opinion as to what you thought ought to be done?

Mr. LAGGREN. No, sir; very seldom.

Mr. KELLEY. You having been there so long, and being so familiar with all these things—

Mr. LAGGREN (interposing). Very seldom, for this reason, that while at the present time no member of the committee was on it at its inception, Mr. Talbert came on it at the time when the principles

on which it was to work were just becoming firmly molded, and he studied them very carefully and was with us throughout, and is with the board now, and he is the man now, on matters of policy, they would go to.

Mr. KELLEY. Who took your place as secretary?

Mr. LAGGREN. My assistant.

Mr. KELLEY. Had he been there long?

Mr. LAGGREN. I believe he came in the fall of the same year I did—in the fall of 1919.

Mr. KELLEY. Is he a younger man or an older man than you are?

Mr. LAGGREN. He is an older man.

Mr. KELLEY. Is he a lawyer?

Mr. LAGGREN. No, sir.

Mr. KELLEY. I suppose you have not much of an idea how long it will take to settle up the claims?

Mr. LAGGREN. Yes, sir.

Mr. KELLEY. Against the Shipping Board—about how long?

Mr. LAGGREN. I believe that the construction claims board, as such, can go out of business in a very few months. It has accomplished a tremendous amount of work.

Mr. KELLEY. You were so well equipped for that work and have been there so long and the board going out after such a short time, it rather occurred to me that it would have been in the interest of efficiency had you continued there until these claims were all out of the way. Will there not be some lost motion there, occasioned by the change?

Mr. LAGGREN. Not a bit. I set up things when I left there so that they have gone on very smoothly. My assistant is a very conscientious man, to whom I have given as much authority as possible, and when I leave he can take the job.

Mr. KELLEY. Of course, you were thoroughly familiar with everything connected with all the rulings from the beginning?

Mr. LAGGREN. As familiar as I could be; yes, sir.

Mr. KELLEY. In this position which you hold now, what equipment did you have to put up?

Mr. LAGGREN. I do not know what equipment I had for it.

Mr. KELLEY. I mean to say, have you ever had any experience in the sale of large quantities of machinery and other material of that sort?

Mr. LAGGREN. Not a bit.

Mr. KELLEY. Was it in the way of a promotion as to salary?

Mr. LAGGREN. Yes, sir.

Mr. KELLEY. That sometimes is something of an inducement to change, I know.

Mr. LAGGREN. I might as well tell you it was my idea to get back into civil life. I thought I had had enough of working for the Government, and I told the board it was my desire to resign, if I could do so without embarrassing them, about October 1.

Mr. KELLEY. That is last October?

Mr. LAGGREN. This same October; yes; when this position was offered me.

Mr. KELLEY. But you will probably now continue on until this surplus material is pretty well out of the way?

Mr. LAGGREN. I will continue on as long as this thing goes ahead; I won't stay with anything that is dead.

Mr. KELLEY. They have not really given you very much authority on this sales position?

Mr. LAGGREN. Well, it is according to how you construe that.

Mr. KELLEY. I judged from your testimony this morning that the larger items had already been disposed of and were being handled from Washington.

Mr. LAGGREN. I did not testify to that.

Mr. KELLEY. No; possibly not in that many words; but a part of the sales business is conducted in Washington and part through your office here?

Mr. LAGGREN. Naturally; yes, sir.

Mr. KELLEY. Is it in the interest of efficiency to have a part of the business transacted in Washington and part in the district?

Mr. LAGGREN. The way we work it, it is very efficient; yes, sir. As long as we have a close tie-in with the list of the sales of the home office, everything works in a very satisfactory manner.

Mr. KELLEY. Do you have some inspectors that report both to you and to Washington?

Mr. LAGGREN. Well, what sort of inspectors?

Mr. KELLEY. Well, I understand you have men in these lumber yards to see that the right man gets the right lumber. You do not have jurisdiction over it exactly; that is, over all of it, though you have over part of it. There is certain lumber in the yard over which you have jurisdiction and there is lumber in the same yard they have jurisdiction over in the Washington office. Are there two men watching such a yard, or just one?

Mr. LAGGREN. No, sir; there are not. I might suggest that I will answer those questions, if you want me to. The head of my warehousing section is here, and I expect will be the next witness, and he can give you much more reliable, authentic, and accurate information on those things than I can.

Mr. KELLEY. I judged from what you said that as long as this thing goes ahead, that you want to remain with the Government, but you do not want to stay with it after it is dead.

Mr. LAGGREN. No, sir.

Mr. KELLEY. By that you mean that you do not want to be merely a perfunctory officer, and I wondered whether or not there were signs of your being a perfunctory official?

Mr. LAGGREN. Absolutely none; we are getting more authority all the time.

Mr. KELLEY. Are there any materials over which you would not have jurisdiction besides what you have testified to this morning?

Mr. LAGGREN. There may be some other contracts in existence, but I am not sure of it. Of course, we have no jurisdiction over the sale of ships, except that we may negotiate sales and refer them to the ship sales division.

Mr. KELLEY. I should think you would have to know very definitely about all the contracts for material over which you did not have jurisdiction?

Mr. LAGGREN. I might know that. If anything which has been under a prior contract, that contract determines the disposition of

that material, and if that was sold and completed prior to my taking over the supply sales division, I naturally have no interest in it. If it was contract involving the sale of material in my district since my taking over the sales division I would have an interest in it. Some of those contracts are still interpreted in Washington. That was so, and there may come a day when they will turn them over to me. I do not know. Some of them are interpreted in our district, but when the contract was made and negotiated in the home office, that is usually where the disputes and arguments entering into it are going to be brought out. That is what I meant by not having jurisdiction over sales made in the home office prior to my taking over the district.

Mr. KELLEY. Who is your superior in Washington?

Mr. LAGGREN. Mr. H. G. Miller and his executive manager of warehouse and sales; of course, they are both higher than we are.

Mr. KELLEY. How long has Mr. Miller had charge of the sales department in Washington?

Mr. LAGGREN. He must have gone in there in July, somewhere in there, or maybe within a month of it. I do not know.

Mr. KELLEY. How much property have you within your district for sale?

Mr. LAGGREN. I can not tell you without looking at my records. I would not even attempt to estimate it.

Mr. KELLEY. Do you find any special confusion growing out of part of this work being handled in Washington and part here?

Mr. LAGGREN. I think we are thrashing those things out in good shape. If we are negotiating the sale of a ship, Washington agrees to keep its hands off until we get the sale worked up to a point where it can be completed, and then it goes to Washington for conclusion. If people walk into the Washington office and try to negotiate bids, Washington sends that up to my office. I went down there and had that out with them.

Mr. KELLEY. What has become of all that fabricated steel in Hog Island? I think there is enough there for a dozen or perhaps eleven ships?

Mr. LAGGREN. As far as I know, it is still there. But that is not authentic.

Mr. KELLEY. Is not that under your jurisdiction?

Mr. LAGGREN. Hog Island is under a special representative.

Mr. KELLEY. I thought Hog Island was a sort of a concentration depot where all the material from various yards had been gathered together?

Mr. LAGGREN. There is a lot of stuff in there; a lot from the American-International, and probably from some other yards, too.

Mr. KELLEY. Have you been in there lately?

Mr. LAGGREN. I have not been in there for three weeks or a month.

Mr. KELLEY. Is it still all stored beautifully out there in the sand?

Mr. LAGGREN. Oh, I think they have been making considerable progress in getting that stuff where it belongs.

Mr. KELLEY. Is some of it outdoors still?

Mr. LAGGREN. I guess there is; there is bound to be if they have not got enough roofs to put it under.

Mr. KELLEY. I suppose it would have been advantageous to have some of the lumber used to build roofs?

Mr. LAGGREN. I can not guess on that; I could guess on it, but what is the use? I do not know.

Mr. KELLEY. Now, from your experience as a business man, what would you say about leaving the machinery and bolts, electrical supplies, and various other perishable stuff out of doors?

Mr. LAGGREN. I would say put it under.

Mr. KELLEY (continuing). And selling the lumber at the price we got for it?

Mr. LAGGREN. I would say put it under; but I do not know whether that stuff is outdoors.

Mr. KELLEY. If it is outdoors?

Mr. LAGGREN. If it is outdoors, I would say certainly cover it with something.

Mr. KELLEY. Was it outdoors three weeks ago?

Mr. LAGGREN. I do not know.

Mr. KELLEY. When you were down there, what did you see outdoors?

Mr. LAGGREN. Practically nothing; I went into one warehouse and got out again. I was there on business.

Mr. KELLEY. You did not look at the stuff outdoors?

Mr. LAGGREN. I drove around and looked at it.

Mr. KELLEY. Are there sheds built over it, running down on that long stretch there a half mile?

Mr. LAGGREN. There were quite a few sheds down there with stuff under them.

Mr. KELLEY. But that did not come under your jurisdiction?

Mr. LAGGREN. No, sir.

Mr. KELLEY. Where is the stuff under your jurisdiction?

Mr. LAGGREN. All over the eastern district. Some of it is in shipyards, some of it is in manufacturing plants, some of it is in construction yards, and some in warehouses.

Mr. KELLEY. Do you know how much rent we are paying for actual storage now?

Mr. LAGGREN. No, sir; but I can give that to you if you want to find out.

Mr. KELLEY. I think that would be a good thing to have.

Mr. LAGGREN. We are going very carefully into the warehouse situation.

Mr. KELLEY. Have you got a good many feet of warehouse space occupied in New York City?

Mr. LAGGREN. No, sir; we have not. We have one warehouse in New York City at Kent Avenue, Brooklyn, the rental of which, I believe, is \$15,000 a year.

Mr. KELLEY. Where is your material in New York located?

Mr. LAGGREN. At the concentration yard at Wilson Point; and then, of course, it is in lots of shipbuilders' plants and manufacturers' plants all around New York.

Mr. KELLEY. What State is Wilson Point in?

Mr. LAGGREN. Connecticut.

Mr. KELLEY. How about the housing conditions for this machinery and these supplies at Wilson's Point? Is it pretty well under cover there?

Mr. LAGGREN. Yes, sir; they have been putting Wilson's Point in pretty good shape. The stuff was dumped into the Wilson's Point plant somewhat promiscuously, I suppose, and I suppose in the rush

there was stuff dumped there outside which should have been put under cover, and later there was stuff that should have been put under cover which was left outside, but that is a condition that I do not think you can very well criticize any one for, as long as steps were taken and discovered to remedy it. The stuff must have been coming in there pretty fast.

Mr. KELLEY. How did you get your inventory of stuff on hand?

Mr. LAGGREN. We get that through the inventory section.

Mr. KELLEY. How do they get it?

Mr. LAGGREN. Go out and get it, take it.

Mr. KELLEY. That is, they went to the concentration yards?

Mr. LAGGREN. Yes, sir.

Mr. KELLEY. And the other other places where it is stored and made a list of the stuff?

Mr. LAGGREN. Yes, sir.

Mr. KELLEY. How do they know they got all they ought to have?

Mr. LAGGREN. I do not suppose they know whether they got every stick or not, the inventory men or inventory crews; the inventory men or inventory crews, I suppose, are supposed to go in and take an inventory under the head of the inventory section.

Mr. KELLEY. Is there any way they could check up with the machinery and lumber and other supplies that were sent to these places in the first place, to know how much was used and determine how much ought to be left there?

Mr. LAGGREN. Yes, sir; there is an accurate record kept of all those things, all incoming shipments and outgoing shipments.

Mr. KELLEY. Of course there ought to be, but are you sure such was the case?

Mr. LAGGREN. No, sir; that is past history that I can not tell you.

Mr. KELLEY. Does that inventory which your inventory people took at the yards, where the concentration yards are located, tally pretty well?

Mr. LAGGREN. Yes; does tally pretty well. We have just had a new inventory at Wilsons Point made, and that inventory should be almost typed at the present time. That ought to be the most accurate thing we have ever had come out of Wilsons Point.

Mr. KELLEY. How much have you got in this fund—how many dollars' worth of material?

Mr. LAGGREN. None of us have seen that inventory. That does not interest me until I see it completed—but probably \$7,000,000 or \$8,000,000. I may be over a couple of million. But in a few weeks we will be able to exactly see that inventory.

Mr. KELLEY. Do you sell the steel?

Mr. LAGGREN. Yes, sir; we sell steel.

Mr. KELLEY. What shape is the steel in that you have to sell?

Mr. LAGGREN. All conditions.

Mr. KELLEY. But you have steel not fabricated—that is, not made up for some particular ship?

Mr. LAGGREN. We probably have very little unfabricated steel, because the unfabricated steel, as I understand, was included in the body of the contract.

Mr. KELLEY. And the steel made for some particular ship is about all you have on hand?

Mr. LAGGREN. We have fabricated steel.

Mr. KELLEY. That is what you meant by that, is it not?

Mr. LAGGREN. We have some structural steel.

Mr. KELLEY. Where else have you got materials?

Mr. LAGGREN. We have also got material at Metuchen warehouse, also in the warehouse at Erie and the warehouse at Chicago.

Mr. KELLEY. Does your jurisdiction extend to Chicago?

Mr. LAGGREN. Yes, sir.

Mr. KELLEY. Have you any at Detroit?

Mr. LAGGREN. We have no concentration at Detroit; no, sir. The material there is simply scattered through the plants.

Mr. KELLEY. Just how do you get in touch with customers for these materials?

Mr. LAGGREN. We have what we call our mailing list, which we attempt to keep up to date, which shows possible purchasers for all classes of material. Those are left in the hands of our salesmen, the head of our warehouse and sales section; the head of our warehouse and sales section has that list which he works with always; and we get a statement of material when it is turned over to us, and that is when we get jurisdiction, inventory certified and appraised. We will write to 40 or 50 different firms showing them we have this list of material, attach a list to it minus cost price and minus appraisal price—that means nothing to them; that is confidential information. That goes out to all these people. We may ask them to go over and take a look at it and give us an offer on it; we may say, "We are going to open bids on this on December 10, at 10 o'clock. Send in your bids, with 10 per cent certified check," and so on, whatever the terms are going to be. We circularize so as to get in touch with every possible buyer for that material.

Mr. KELLEY. You do sell, of course, below the appraised price?

Mr. LAGGREN. Yes, sir.

Mr. KELLEY. And who finally passes on such sales as that?

Mr. LAGGREN. There are a good many rules governing that, all of which I do not remember. I do not attempt to carry them in my head. If we are going to clean out a small lot of material under a certain figure, we will say, \$1,000, at a plant where we are paying storage on it, it would not pay us to take and move that across the country to some storage point if we can sell that out in our own judgment below appraisal. Anything which is sold out of one of our concentration warehouses, if it is sold below appraisal, must go to Washington for the approval of the officials in Washington.

Mr. KELLEY. And these smaller sales your personal approval is sufficient?

Mr. LAGGREN. These smaller sales on appraisal at manufacturing plants can be made according to the judgment of the district director.

Mr. KELLEY. When you were on the claims board, what department of the Fleet Corporation gave you your information upon which you could take the Government's side of the case?

Mr. LAGGREN. Originally the supply and sales division had a cancellation section. They worked up the cases——

Mr. KELLEY (interposing). You see, I am talking now about the claims.

Mr. LAGGREN. That is right; I am coming to it. They worked up the claims for presentation to our board on purchase orders. That is

not a contract for ship construction, but on the machinery contracts and purchases of supplies and purchases of equipment—they would work up the cases and send them in to our board; that is, the cancellation section of the supply and sales division. There was a section they called the cancellation section, which was attached to the construction division—I think that is its organization attachment—that worked up the claims on ship contracts.

Then, later, when we were trying to get matters better systematized, we did away with the cancellation section of the supply and sales division and with the cancellation division of the construction division, and we set up district offices under the construction claims board throughout the country.

The first try-out with that was with district cancellation claims and contract boards. That did not work. So we changed it and we put one man in each place, called the district adjuster. It was up to him to see that the claims got in from those districts. He had a force of negotiators with him. He had at his services the district comptrollers. He worked up the claims, got the signatures of the district comptrollers, and their approval, and district managers and various other people interested and sent them on into Washington to our board—worked up what we called the “recommendation.” No case would go before the board without what we called the cancellation recommendation, which set up the history of the contract, what was canceled, what the contractor claimed, discussion on each item, why items were disallowed, how much the contractor cut down, how his overhead figured, and everything about the claim.

Mr. KELLEY. Would that all come down to you through the comptroller’s office?

Mr. LAGGREN. Every claim that came into our office we sent to the general comptroller’s office. That claim was not acted upon by the board until we got the comptroller’s report on it; that was to check up on the bids. Of course, it was all supposed to be audited beforehand. Sometimes claims came in improperly audited, and the comptroller would want to find fault with it and criticize. So we adopted the system, in order to prevent trouble after settlement, of getting these things beforehand.

Mr. KELLEY. And would the comptroller make a recommendation as to what he claimed should be allowed?

Mr. LAGGREN. The comptroller, if he approved, would write us a small letter, which would go on file, and be presented to the board along with the cancellation recommendation, stating in a few words that he approved settlement as recommended. If he disagreed with any part of it he would state what his disagreement was, and we would probably send for his representative and argue it out with him. Maybe we would have to send for the contractor, and get the comptroller and our people and the contractor together, and work out something that was mutually satisfactory.

Mr. KELLEY. The allowances which you made finally might or might not be in harmony with the ideas of the comptroller?

Mr. LAGGREN. Very seldom were they out of harmony with the ideas of the comptroller, because the comptroller was a man who had his hands on the money bag, and if it came to a showdown, although we always disrupted authority, if the comptroller did not

think a claim was a right claim it came pretty near being held up, and usually was held up.

Mr. KELLEY. Where would it go then, if the comptroller could not agree?

Mr. LAGGREN. Sometimes it had to go to the board of trustees; usually we could come to an agreement among ourselves.

Mr. KELLEY. The chairman mentioned a few cases this morning—the Merrill-Stevens case. Did the comptroller approve that settlement?

Mr. LAGGREN. I can not answer; I do not know.

Mr. KELLEY. And how about this White Haven case?

Mr. LAGGREN. I can not answer as to that. That is a canceled case, and, as I answered this morning, I do not know. I know that the comptroller's man was in our board room day after day and week after week, and that he got all sorts of statements from us, and he was working with us to attempt to arrive at something. Whether they got in mutual accord on that, I do not know.

Mr. KELLEY. That was done after you left the board?

Mr. LAGGREN. During my régime, but those were special cases.

Mr. KELLEY. You can not, of course, carry the records all in your mind.

Mr. LAGGREN. No.

Mr. KELLEY. I do not remember whether you stated who were the parties in interest in the White Haven case?

Mr. LAGGREN. The names?

Mr. KELLEY. Yes.

Mr. LAGGREN. No; I do not know the names.

Mr. KELLEY. You have not very much personal knowledge of any kind about these wooden ships or the hulls?

Mr. LAGGREN. No, sir.

Mr. KELLEY. You do not know whether or not any wooden ships are being built now, do you?

Mr. LAGGREN. I should say no; but I do not know whether they are or not.

Mr. KELLEY. Probably not many of these wooden-ship yards are doing business at the present time?

Mr. LAGGREN. No; it is safe to say they all went out of business.

Mr. KELLEY. It would practically be a scrap proposition, would it not?

Mr. LAGGREN. Yes, sir.

Mr. KELLEY. That being the case, how could they make a claim against the Government for \$20,000 for a hull on the ways, and make it stick?

Mr. LAGGREN. They claimed it cost them that to get it down.

Mr. KELLEY. If the yard is not any good only for scrap, anyhow?

Mr. LAGGREN. They want to turn the yard into something else, and there it sets in the middle of the yard.

Mr. KELLEY. I have seen a number of these yards, and they did not look like they would be a very good place for residence property or anything like that.

Mr. LAGGREN. You can not tell a man he is not going to use his yard for something, if he comes in and tells you he is going to use that yard for something?

Mr. KELLEY. Unless the Government built it in the first place, or advanced large sums of money toward it.

Mr. LAGGREN. Yes, sir.

Mr. KELLEY. You do not have any jurisdiction over the wooden ships on this side offered for sale?

Mr. LAGGREN. No, sir. We attempt to find customers, and we do.

Mr. KELLEY. Is there anybody asking for the purchase of these wooden ships?

Mr. LAGGREN. No, sir; but we did sell one in our New York office awhile ago.

Mr. KELLEY. Do you remember what you got for it?

Mr. LAGGREN. Yes; we got \$45,000 for it, and had a deuce of a time getting the man to take it; he wanted to back out of it.

Mr. KELLEY. Do you remember what percentage that would be of its cost?

Mr. LAGGREN. Well, I do not know what the average was on the cost, but did not those hulls average somewhere around \$419,000 or \$420,000.

Mr. KELLEY. That would be about 10 per cent. You think that is a pretty good sale, do you?

Mr. LAGGREN. Yes, sir. I do not know whether it was a fully completed hull or not.

Mr. KELLEY. Do you know what the Shipping Board asked for those hulls out there in Lake Union?

Mr. LAGGREN. What they are asking?

Mr. KELLEY. Yes.

Mr. LAGGREN. No, sir; but I suppose if they had been allowed to sell them a year ago they would be a whole lot better off than they are now.

Mr. KELLEY. What could they have gotten for them a year ago, do you think, Mr. Laggren?

Mr. LAGGREN. They might have gotten \$40,000 or \$50,000 for them.

Mr. KELLEY. Where are the hulls stored on this coast?

Mr. LAGGREN. A lot of them are at Wilsons Point—seven or eight of them are tied in there at Wilsons Point.

Mr. KELLEY. Those are in your territory, but not under your jurisdiction, except that you would be glad to sell them if anybody made application?

Mr. LAGGREN. Yes, sir.

Mr. KELLEY. Do you know what you did with the machinery which we had on hand for the hulls?

Mr. LAGGREN. We are willing to sell one of the hulls, and we will sell the machinery extra that is not in it.

Mr. KELLEY. Do you have jurisdiction over the machinery?

Mr. LAGGREN. Yes, sir.

Mr. KELLEY. I should think the same man who has jurisdiction over the hulls ought to have jurisdiction over the machinery.

Mr. LAGGREN. That is a matter of organization.

Mr. KELLEY. What do you think?

Mr. LAGGREN. I would just as leave have jurisdiction over the ships.

Mr. KELLEY. Or the man who has jurisdiction over the sale of the ships, why should he not have the machinery that goes into it?

Mr. LAGGREN. You see that does not affect us any. If the home office sell a hull without machinery, they have to sell the machinery also.

Mr. KELLEY. Simply directs you to deliver it?

Mr. LAGGREN. Sure. They have got it all right in their hands.

Mr. KELLEY. But in negotiating a contract with the probable purchaser he would undoubtedly go to Washington rather than to bother with you under those conditions, because he would first have to make an arrangement for the hull?

Mr. LAGGREN. He probably would, though we would work up the negotiation and prepare the man and get him in shape and get him up to the point where his proposition is worth something.

Mr. KELLEY. You do not think this division of authority, one agent selling the hulls and another selling the machinery—tends to delay the whole proposition of selling these ships, do you?

Mr. LAGGREN. No, sir; I do not think that affects it a particle; I think it is all right.

Mr. KELLEY. Very often during the war we would hear men complain about having to go from one agency to another, and that they were never able to quite finish up negotiating a contract. Is not this something like that?

Mr. LAGGREN. A lot of those things are done away with, because we are realizing that we must get cooperation and coordination or we will never get anywhere, so we are getting it.

Mr. KELLEY. There are some men in your district who are charged with the responsibility of carrying out the Barde contracts, are there?

Mr. LAGGREN. Only in a supervisory capacity, that is all.

Mr. KELLEY. To whom do they report?

Mr. LAGGREN. On the Barde contract itself—right into Washington.

Mr. KELLEY. They are not under your supervision at all?

Mr. LAGGREN. Yes; because they do a lot of my work.

Mr. KELLEY. You employ them, do you?

Mr. LAGGREN. Yes, sir; they are employed in my office.

Mr. KELLEY. I know; but do you employe them?

Mr. LAGGREN. Yes; sure, I employ them.

Mr. KELLEY. Do you hire and discharge inspectors at will?

Mr. LAGGREN. Inspectors—that is a very vague term. I do not know what you mean by that.

Mr. KELLEY. Whatever it is that you call these men who see that the contract is properly carried out?

Mr. LAGGREN. Yes; I can discharge them at will.

Mr. KELLEY. And these men are not appointed from Washington who have charge of the Barde contract?

Mr. LAGGREN. Not the men in my district; no.

The CHAIRMAN. You said something about this material at Wilsons Point having been piled in there pretty fast, Mr. Laggren?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. What was the cause of that?

Mr. LAGGREN. Canceled ship contracts.

The CHAIRMAN. They went there from the various shipyards?

Mr. LAGGREN. A lot of it went there from the various shipyards, and a lot came from the persons who would have a lot shipped to the shipyards—there it was ready for delivery.

The CHAIRMAN. From the manufacturers?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. In the shipyards they had buildings where a lot of this machinery could be stored, did they not?

Mr. LAGGREN. I presume so.

The CHAIRMAN. You have visited some of the shipyards where there were buildings that this material could have been stored temporarily?

Mr. LAGGREN. Very few of the shipyards. I have only visited Hog Island and Merchant Ship; I never had time to get out and visit any of them; I did not need to.

The CHAIRMAN. You said you thought there was more coordination and cooperation being shown with reference to closing up these matters than when you first went in the board; is that so?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. And that within a few months you thought the cancellations and supply matters might be fixed up?

Mr. LAGGREN. No, sir; I do not think that applies to supply and sales division.

The CHAIRMAN. Not in the supply and sales division?

Mr. LAGGREN. No, sir.

The CHAIRMAN. You meant to the cancellation of them?

Mr. LAGGREN. To construction and claims board.

The CHAIRMAN. How about sales and supplies?

Mr. LAGGREN. That is going to continue for some time.

The CHAIRMAN. Do you think that if the board reduced its prices materially on a lot of its material that it would hasten the disposition of it?

Mr. LAGGREN. No, sir; I do not think we ought to reduce prices; I think we ought to stay right in the market. We must stay up and know what the market is, and just because people are buying from the Government they must not expect we are going to give the stuff away.

The CHAIRMAN. You think that it would be more advantageous for the Government for them to keep up near the market on this material that is available for sale and keep its organization, even though it took a little longer to dispose of it?

Mr. LAGGREN. I certainly do; yes, sir.

The CHAIRMAN. In the long run they would have to charge off less?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Are you called in by Mr. Miller or his assistant for conference or consultation on matters of policy?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Are you present when other district managers are there, too? Do you have a general conference, or is just—

Mr. LAGGREN (interposing). We have had no general conference since I have been with the supply and sales division.

The CHAIRMAN. So you do not know whether the same policy that applies to your district is being pursued in other sections of the country?

Mr. LAGGREN. I know that Mr. Miller is very actively engaged in putting all his districts on what he believes to be a solid business basis.

The CHAIRMAN. They have not been heretofore, have they? --

Mr. LAGGREN. Naturally not. In a mushroom corporation there have been lots of evils that always take a man who is going to get into the thing personally to stop—whether Government corporation or private corporation—

The CHAIRMAN (interposing). Yes; but these contracts were canceled some two years ago.

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. And you say there is more cooperation and coordination now than there has been previously?

Mr. LAGGREN. Yes, sir.

The CHAIRMAN. Do you not think that the shipping of vast quantities of material—machinery, pumps, dynamos, engines, lifeboats, and other materials—into these concentration plants and dumping them down in the sand without protection from the weather, in many instances without any inventory or check up being made of the material, could have been avoided in the first instance?

Mr. LAGGREN. I would want to know before I answered that all the conditions which led to those shipments.

The CHAIRMAN. Do you think there ought to have been any conditions that would have permitted millions of dollars worth of property being handled in that way, in such haste and with such disregard of proper care for it?

Mr. LAGGREN. No. When you come right down to it there is no excuse for carelessness in the handling of property.

The CHAIRMAN. You have seen, you say, at Wilsons Point and Hog Island—

Mr. LAGGREN (interposing). I did not say Hog Island.

The CHAIRMAN. I beg pardon; I thought you said you drove around the property at Hog Island down along that neck, the lower end of Hog Island. Have you ever been down there—walked down through there and seen the material?

Mr. LAGGREN. No; I have never walked down through; I went down through one or two in an automobile.

The CHAIRMAN. And, of course, you are not familiar with the conditions on the Pacific coast; you have never visited that coast?

Mr. LAGGREN. No, sir.

The CHAIRMAN. By whom were you appointed to your present position?

Mr. LAGGREN. By O. G. Thompson, who was acting director of supply and sales division during Mr. Miller's absence on the Pacific coast.

Mr. KELLEY. Under Barde's contract, did he buy the supplies outright from the Government?

Mr. LAGGREN. What do you mean by "buying outright"?

Mr. KELLEY. What is it, a lump-sum price?

Mr. LAGGREN. The original contract?

Mr. KELLEY. The one he is operating under now for the—

Mr. LAGGREN. I believe he did.

Mr. KELLEY. How about the last contract?

Mr. LAGGREN. No, sir; that is on a percentage basis.

Mr. KELLEY. Under that contract, who fixes the prices at which he is to sell them?

Mr. LAGGREN. That he is to sell at?

Mr. KELLEY. Yes.

Mr. LAGGREN. I do not know.

Mr. KELLEY. You say he gets a percentage of the sales?

Mr. LAGGREN. Yes.

Mr. KELLEY. And he conducts the sales?

Mr. LAGGREN. Yes, sir.

Mr. KELLEY. Do you not know the general terms under which he sells?

Mr. LAGGREN. No; I do not. I have only heard through hearsay and in a very general way the terms of the proposed west coast Barde deal. I do not even know whether it is consummated or not. Eventually, if the contract is ever drawn, I will get it and read it carefully for my own information.

Mr. KELLEY. I judge from what you said you thought all the supplies ought to be sold as near the market price in the commercial world as possible?

Mr. LAGGREN. I said I did not think we should knock down our prices.

Mr. KELLEY. You do not know whether or not Mr. Barde could knock the prices down or not?

Mr. LAGGREN. No; but I do not see how he could. I have this much confidence in my superiors that when they draw their contract with Barde it will amply protect the United States Shipping Board.

Mr. KELLEY. And that you will expect to find there a provision requiring him to sell as near market price as possible?

Mr. LAGGREN. I would expect to find some provisions in there protecting the Shipping Board as to prices.

Mr. KELLEY. You have not any knowledge about that?

Mr. LAGGREN. No, sir.

Mr. KELLEY. Did you have anything to do with reinstating canceled contracts?

Mr. LAGGREN. The construction claims board frequently recommended the reinstatement of canceled contracts; yes, sir.

Mr. KELLEY. Are you familiar with the reinstatement of the Diesel engine contract out in San Francisco or Oakland?

Mr. LAGGREN. I was, a little, at the time, but I have forgotten all the details of that. That was a long while ago.

Mr. KELLEY. You do not know now why that was done?

Mr. LAGGREN. In general, they figured out the cancellation costs, what we would have to pay if we accepted the cancellation and paid the man his regular cancellation allowances and compared it with the cost of completing the engines, and the balance was in favor of reinstating the engines and taking them as completed units and seeing what we could do with them.

Mr. KELLEY. What will the Government do with these engines when it gets them?

Mr. LAGGREN. That is one of the problems that the supply division has got to face.

Mr. KELLEY. They will go into the salvage yard to be sold, will they not?

Mr. LAGGREN. We do not know where they will go yet.

Mr. KELLEY. They are not building them for any ships at all?

Mr. LAGGREN. No. Do you get the point on the reinstatement? You must always compare cost of completion with your cost of cancellation, and if it is not going to cost you as much to complete as it is to pay your cancellation costs, whatever you can make out of your product is going to be a little extra for the United States Government.

Mr. KELLEY. This contract has been running along for a couple of years, has it not, since the war ended?

Mr. LAGGREN. I do not know about that.

Mr. KELLEY. Were these Diesel engines so near finished two years ago that they are still being delivered?

Mr. LAGGREN. That problem did not come to the board two years ago.

Mr. KELLEY. When did that come up?

Mr. LAGGREN. This past winter, when I was in Washington.

Mr. KELLEY. Why did they not stop construction on these men when they stopped construction of other things when the armistice was signed?

Mr. LAGGREN. That is another question I can not answer.

Mr. KELLEY. That was not a matter for you to decide?

Mr. LAGGREN. No, sir.

Mr. KELLEY. And you have no information as to why it was not done?

Mr. LAGGREN. No, sir.

Mr. KELLEY. Who would know about that?

Mr. LAGGREN. I imagine the construction of those Diesel engines—I do not know whether that would come under construction division or supply and sales. That was a building-up program and I did not come with them until they began tearing down.

The CHAIRMAN. Just a single question, Mr. Laggren. You stated that some of these shipbuilders who wanted the hulls taken off the ways represented that they wanted to use the property for something else?

Mr. LAGGREN. Yes.

The CHAIRMAN. Do you know how many of these shipyards there are where that claim was set up which remained in the same condition as they did when the hulls were removed?

Mr. LAGGREN. No, sir; I do not. I would like to know, but I do not.

The CHAIRMAN. Do you know how many of these shipyards there are where the hulls have been removed under the Rogers agreement have been converted to other uses since then?

Mr. LAGGREN. No, sir.

The CHAIRMAN. I think that is all, Mr. Laggren.

TESTIMONY OF MR. EADS JOHNSON.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. What is your name, Mr. Johnson?

Mr. JOHNSON. Eads Johnson.

The CHAIRMAN. Where do you reside?

Mr. JOHNSON. University Club, New York.

The CHAIRMAN. What is your business?

Mr. JOHNSON. Consulting marine engineer and naval architect.

The CHAIRMAN. By whom are you employed?

Mr. JOHNSON. It is my own business.

The CHAIRMAN. You are in business for yourself?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. Were you formerly connected with the Emergency Fleet Corporation?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. Or the United States Shipping Board?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. When did you first enter their employment?

Mr. JOHNSON. In April, 1917.

The CHAIRMAN. How long did you continue with them?

Mr. JOHNSON. Until about October, 1917.

The CHAIRMAN. In what capacity?

Mr. JOHNSON. District officer here in New York.

The CHAIRMAN. Of what did your duties consist?

Mr. JOHNSON. I was detailed here to take entire charge of the contracts, the letting of contracts, and supervision over the shipyards in this district.

The CHAIRMAN. You let what sort of contracts?

Mr. JOHNSON. Contracts for wood and steel ships or anything that came before me at that time.

The CHAIRMAN. You let contracts for the construction of ships?

Mr. JOHNSON. We have the visé of contracts, you may say. We got them prepared and made our recommendations. Then they went before Gen. Goethals, and he was to approve them.

The CHAIRMAN. Well, what contracts here in New York do you recall that you viséed or recommended being let?

Mr. JOHNSON. I think there was a contract with the Johnson Shipyards on Staten Island for some wooden ships.

The Downey contract came before me at that time. but I had nothing to do with that, it was given to Mr. Downey in Washington. We had a contract with the Kingston Shipbuilding Co., at Kingston, N. Y. Another contract was given to Mr. Simon Lake, the Housatonic Shipbuilding Co., which came under me, but I did not have the giving of that contract.

Mr. C. W. Morse's yard at Noank, Conn.—or not at Connecticut, Groton; that came under me at the time. I do not recall just all the other contracts we had to do with.

The CHAIRMAN. Who appointed you?

Mr. JOHNSON. Mr. Denman.

The CHAIRMAN. Did you have anything to do with drawing—

Mr. JOHNSON. Oh, I should qualify that statement. Mr. Denman called me to Washington; Mr. Denman and Mr. Brent, vice chairman. When I went down there Gen. Goethals employed me.

The CHAIRMAN. He gave you your assignment?

Mr. JOHNSON. And he gave me the assignment here in New York; yes, sir.

The CHAIRMAN. And you were there from April to October, 1917?

Mr. JOHNSON. About that time. I recall I found the appointment, I think it was dated April 11, but I could not find the letter of •

acceptance of my resignation by Admiral Capps. It was in October, I think.

The CHAIRMAN. Did you resign voluntarily?

Mr. JOHNSON. Yes, sir; I resigned several times before it was finally accepted.

The CHAIRMAN. And what business did you go into then?

Mr. JOHNSON. I went back into my own business, consulting naval architecture and marine engineering.

The CHAIRMAN. How would you find out, when a contract was submitted to the Shipping Board, as to whether it should be awarded or not, or had been awarded?

Mr. JOHNSON. Will you state that question again, please?

(The question was read.)

Mr. JOHNSON. A contract—a copy of the contract was sent to me from Washington.

The CHAIRMAN. Well, were you ever instructed to place contracts by telegraph?

Mr. JOHNSON. No, sir; we placed no contracts by telegraph.

The CHAIRMAN. Did you ever do any work here for the Shipping Board after you left the Fleet?

Mr. JOHNSON. No, sir.

The CHAIRMAN. What?

Mr. JOHNSON. No, sir; it was not for the Shipping Board at that time.

The CHAIRMAN. What was it?

Mr. JOHNSON. Mr. Morse called me in and asked me to go to Alexandria to look over a shipbuilding site, which I did, and accompanied him to Washington, looked over his site, and approved of it, and gave him sort of a layout of his yard; gave him two days of service, and that is all there was to it.

The CHAIRMAN. That is all you had to do with that?

Mr. JOHNSON. That is all I had to do with it; yes, sir.

The CHAIRMAN. Are you familiar with the early history and working of the Fleet Corporation?

Mr. JOHNSON. I think so, fairly so, from recollection only.

The CHAIRMAN. What was the procedure in the awarding of contracts?

Mr. JOHNSON. I did not have very much to do with that, Congressman. I was at the other end of the line, except when I first started out, Mr. Brent telephoned and asked me to come to Washington, which I did. I met Mr. Brent and Mr. Denman, and I met the rest of the Shipping Board. They decided they were going to build a fleet of wooden vessels, and they wanted to find out just what the possibilities were through the South.

Shortly after that, I think, I was in Washington a couple of days, and Gen. Goethals came there and took charge, and he told me at the time it was his understanding that I was to take a trip through the South to look over the possibilities. And I left and went direct to New Orleans, without any instructions, but he was to wire me instructions when I got there. I had a man go through Texas, along the Texas coast, my brother Warren Johnson, and report back to New Orleans to me, to let me know what he could find; and I had another man, Ollinger, from Mobile, who went over to Pensacola

from Mobile and met me in New Orleans, so that we could get a quick survey of the whole situation down there.

While I was in New Orleans I took a trip over to Ernest Janke's place, which was a place over on the Chefuncta River, across Lake Ponchartrain; so I telegraphed after seeing Mr. Janke's site, I thought he was worth while starting, and at that time it is my recollection that I gave a contract, or gave an order, an authority for ways only; but the ways were to be started, ship contracts would be forthcoming.

After I got through with Mr. Janke I wrote out a telegram and sent it on to Washington to get approval, if I could give him such a letter or such a telegram, such authority; and I got an answer back that it was perfectly all right to give it to him. That was the way he started on his wooden-ship contract.

While I was in New Orleans I got a telegram from Washington directing me to go straight to Savannah—that there was a man there who was going to build 50 ships—wanted to build 50 ships immediately. So I had to break all of my arrangements and go to Savannah. I met a Mr. Salas there, and I rode up and down the river, and I did not see anything but the banks of the river, so I was not very enthusiastic about giving Mr. Salas any contract for 50 ships. So I telegraphed on, and the telegram came back to give him 5 or 10 ships—I do not know what it was, but I qualified that into ways—and we got him started, or supposedly so.

There was another man there named Wayne Cunningham who had a pretty good little wooden shipyard at the time. He was building a large schooner, and he asked for a similar letter, and I think he got a similar authority for two ways; but I telegraphed and got authority to go through with it in each case.

From there I went to Jacksonville, Fla., and——

The CHAIRMAN. Just before you take up Jacksonville, did these men have plants established?

Mr. JOHNSON. Salas did not have a plant; no, sir.

The CHAIRMAN. Did you pick out the site of the plant?

Mr. JOHNSON. I looked over his site.

The CHAIRMAN. Did you pick out the site?

Mr. JOHNSON. No, sir.

The CHAIRMAN. Who did?

Mr. JOHNSON. Mr. Salas.

The CHAIRMAN. Without approval on the part of anybody representing the Shipping Board?

Mr. JOHNSON. He showed me the site where he proposed to put up a shipyard, and asked if that was all right. I said it would make a very good site, although there were miles of it that would make just as good a site.

The CHAIRMAN. Did you tell him that without making any survey as to the depth of the river or the exact location of the ways?

Mr. JOHNSON. Oh, no; we went over the ground.

The CHAIRMAN. Was the plant later constructed at the point you had inspected?

Mr. JOHNSON. According to the records which are on file—they should be—telegrams back and forth—the contract was never given; that is, it was never approved of, because when I got back to Wash-

ington and told Gen. Goethals, reported to him, why, he said that he did not know that I had left New Orleans.

The CHAIRMAN. Who wired you these instructions to go to Savannah?

Mr. JOHNSON. He finally sent for Mr. Eustis, who was then acting as an assistant general manager, I think he called himself, and he had been sending all these telegrams in reply to mine, without my knowledge, of course.

The CHAIRMAN. Was Gen. Goethals's signature, or was the name of Gen. Goethals affixed to the telegrams?

Mr. JOHNSON. I think they are all signed "Goethals."

The CHAIRMAN. And you had been sent down there under telegraphic instructions, presumably, from Gen. Goethals, and upon your return to Washington was told that he did not know you had left New Orleans?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. Who was Mr. Eustis.

Mr. JOHNSON. I think the records will show that. I could not tell you exactly who he is. I met him down there with the rest of them. He seemed to be a sort of an adviser to the Shipping Board. There were two men, Eustis and Clark, who came down there with a wonderful idea of building 1,000 wooden ships. If they built 1,000,000 rowboats it would have taken 1,000,000 torpedoes to have sunk them, and they had the same idea about building wooden ships; so they thought the more wooden ships they would build the more torpedoes it would take.

The CHAIRMAN. You left Savannah and went to Jacksonville?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. Under instructions?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. Presumably from the general?

Mr. JOHNSON. Some of those telegrams are probably signed "Eustis." I do not recall just who signed all of them, but I was acting under the authority from Washington, their telegrams show.

The CHAIRMAN. What did you do at Jacksonville?

Mr. JOHNSON. I went all over Jacksonville; got there 7 o'clock at night, and in the morning, at 4.35, I got out with Mr. Cummer, of the Cummer Lumber Co., and looked over Jacksonville, and caught the 9 o'clock train for Brunswick, without giving any authority down there at all.

The CHAIRMAN. You went to Brunswick, then?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. Under orders?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. What did you do at Brunswick?

Mr. JOHNSON. I met the Brown Bros., I think they call themselves, and I had instructions to give them a contract, and I think they had a yard there, the Brunswick Shipbuilding Co., or some such place, I have forgotten the name of it; and I gave them an order for two ways, or something of the sort.

The CHAIRMAN. A contract, do you mean?

Mr. JOHNSON. An authority to go ahead on two ways.

The CHAIRMAN. Authority. Where did you go from there?

Mr. JOHNSON. I went straight back to Washington.

The CHAIRMAN. Did you ever approve any sites for a yard at any other points down South?

Mr. JOHNSON. No, sir.

The CHAIRMAN. Never approved any cite at Jacksonville?

Mr. JOHNSON. No, sir. I say that without records. All of these records and the entire corespondence was brought back with me to Washington when I returned, and there might have been some that I am begging the question now, I am not sure. I do not recollect giving anything in Jacksonville.

The CHAIRMAN. How long did you stay at Savannah?

Mr. JOHNSON. During the day.

The CHAIRMAN. And that is all the inspection you made?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. Before you recommended some shipyards there. Oh, you got orders, did you?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. To give the authority?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. And that is the gentleman who wanted to build 50 ships?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. Wooden ships?

Mr. JOHNSON. That is right.

The CHAIRMAN. And at Brunswick you gave authority for two ways?

Mr. JOHNSON. I think so.

The CHAIRMAN. And that was all the inspection you made, just one day there?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. And in New Orleans you had also given authority for how many ways there?

Mr. JOHNSON. Just one yard, Janke's yard.

The CHAIRMAN. That was a shipyard?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. Were you under instructions to look up any existing yards and ascertain whether they could be enlarged or extended, on that trip?

Mr. JOHNSON. Yes, sir; I was to make a survey of the entire situation.

The CHAIRMAN. Did you?

Mr. JOHNSON. I did.

The CHAIRMAN. Did you find any existing yards?

Mr. JOHNSON. Nothing except what I have mentioned.

The CHAIRMAN. Janke's?

Mr. JOHNSON. Janke's.

The CHAIRMAN. That was the only one?

Mr. JOHNSON. That was the only one. There were yards at Jacksonville, but I had nothing to do with contracts there, as I recollect. There was a yard at Brunswick, they were building schooners there. None of these yards were building wooden steamships.

The CHAIRMAN. About what time was this, in April?

Mr. JOHNSON. It was between the 11th of April, and I think it took me about 14 days to make the trip; say the 11th and the 25th.

The CHAIRMAN. Did you ever revisit those points to see whether they ways were established?

Mr. JOHNSON. No, sir. I was under orders continuously; I had no opportunity to do that.

The CHAIRMAN. After you got back to Washington what did you do?

Mr. JOHNSON. After Gen. Goethals found out this mix up about telegrams, he immediately wired down to all of these plants, with the exception of Janke, rescinding the orders that were given, and I wrote the telegrams; so that canceled all of that work.

The CHAIRMAN. So the man did not build the 50 wooden ships down at Savannah?

Mr. JOHNSON. No, sir. I do not think he built any ships at all.

The CHAIRMAN. After that what happened, after you rescinded these?

Mr. JOHNSON. I had enough of the Shipping Board, and I came to New York.

The CHAIRMAN. Did you leave the work?

Mr. JOHNSON. I resigned for the first time.

The CHAIRMAN. You resigned?

Mr. JOHNSON. Yes, sir; I saw the way things were going and thought they were going, and I thought it best to get out. I have been a shipbuilder all my life, that is all I know.

The CHAIRMAN. Where have you built ships, Mr. Johnson?

Mr. JOHNSON. Why, I have been building ships since 1899. I started out at Lewis Nixon's yard, and worked in overalls for two or three years, and I was foreman at Cramp's yard; I was then superintendent of construction in the United States Lighthouse Department; and from there I went to James Shewan & Sons, New York City, as their general manager for three years, in their repair plant here—their dry docks. Then I took charge of the New York Shipbuilding Co.'s office in New York, and from there I went out for myself. I spent 11 years educating myself in my present business.

The CHAIRMAN. You say you saw the way things were going in the Shipping Board?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. And you resigned. What do you mean, the way things were going?

Mr. JOHNSON. Well, I did not like the way they were going, that is all. There were no shipbuilders in Washington, that I saw.

The CHAIRMAN. Things were not going, were they?

Mr. JOHNSON. Oh, they were going in every direction; yes, sir.

The CHAIRMAN. Well, what do you mean by that?

Mr. JOHNSON. Well, exactly what I say—they were going in every direction?

The CHAIRMAN. Confusion?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. An unsettled policy, apparently?

Mr. JOHNSON. They had a policy to build wooden ships, which did not appeal to me very much. I am a steel-ship builder.

The CHAIRMAN. Well, wooden ships do not appeal to steel-ship builders, as a rule, do they, Mr. Johnson?

Mr. JOHNSON. No, sir.

The CHAIRMAN. And steel ships do not appeal to the wooden-ship builders, as a rule, do they?

Mr. JOHNSON. I think you can qualify that statement. A wooden-ship builder knows the limitation of the wooden ship, and when he gets above that size he knows he has to go to steel, so he must recognize the advisability of steel.

The CHAIRMAN. How long were you in Washington after you came back from this excursion through the South?

Mr. JOHNSON. I took the midnight train back to New York. I got there in the afternoon about 5 o'clock and left that night.

The CHAIRMAN. Having previously tendered your resignation?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. Was it accepted?

Mr. JOHNSON. It was laid on the table. I think everybody was ready to resign.

The CHAIRMAN. What happened when you came back to New York?

Mr. JOHNSON. I was called again, and I went back to Washington. Gen. Goethals sent for me.

The CHAIRMAN. How long afterwards?

Mr. JOHNSON. I think that was on a Thursday, and it was Sunday afternoon I was called, and I went back on Monday, and Gen. Goethals asked me if I would help him and I told him I would be very glad to. And then he asked me to take charge of the New York district.

The CHAIRMAN. To take charge of the New York district?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. Just who were under your supervision here in New York? What organization did you have, and what was your authority, and who was under you, and what did you do?

Mr. JOHNSON. That is all a matter of record, under the district officers' instructions, which was dictated by Gen. Goethals at a meeting of the district officers. I could not recall all of the limitations on my authority or otherwise, but I was sent here to be——

The CHAIRMAN. Were you the boss of this district?

Mr. JOHNSON. Yes, sir; absolutely.

The CHAIRMAN. Everybody else operating here took their orders from you?

Mr. JOHNSON. At that time; but there were only 14 of us.

The CHAIRMAN. Only 14 in the organization?

Mr. JOHNSON. That is all; yes, sir.

The CHAIRMAN. Did you continue in that position until you left the Fleet Corporation?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. Had you had any other resignation put upon the table prior to your leaving the service of the Shipping Board?

Mr. JOHNSON. I resigned as soon as Gen. Goethals resigned.

The CHAIRMAN. That was during that summer?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. Was that accepted?

Mr. JOHNSON. No, sir. Gen. Goethals asked me to stay, and I stayed.

The CHAIRMAN. Are you interested at present in any shipbuilding concern?

Mr. JOHNSON. Yes, sir; I am vice president of the Johnson Iron Works, in New Orleans.

The CHAIRMAN. Is that a shipbuilding plant?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. Were you interested in it when you went to New Orleans?

Mr. JOHNSON. No, sir.

The CHAIRMAN. Was it in operation then?

Mr. JOHNSON. I was interested as a member of the family; but at that time we did not have a corporation, and I was not an officer. That has only been since April of this year.

The CHAIRMAN. When you took charge of the New York office did you confer with people seeking contracts for the construction of ships?

Mr. JOHNSON. Yes, sir. They came in looking for a contract on a cost-plus basis for the wooden ships, and I think the first week we had about 155 applicants. So I went to Washington to see Gen. Goethals. He told me he would send Admiral Rousseau up here to confer with me. Admiral Rousseau came up, and I told him the impossibility of giving so many people contracts for wooden ships without stepping on some one's toes. So the lump-sum contract was then decided upon, and I did not have quite so many applicants.

The CHAIRMAN. After they eliminated the cost plus, the list of applicants decreased?

Mr. JOHNSON. Yes; we got down to business then.

The CHAIRMAN. Was Admiral Rousseau in Washington when you went there?

Mr. JOHNSON. No, sir; he was up in New York State somewhere, and he was sent around to New York and stopped in my office in New York to look over this.

The CHAIRMAN. Were the wooden-ships contracts that were let here carried out?

Mr. JOHNSON. Lump-sum contracts.

The CHAIRMAN. Were they carried out?

Mr. JOHNSON. They were carried out, so far as I was concerned. I did not stay there until their completion.

The CHAIRMAN. None of the ships were completed while you were district officer, then?

Mr. JOHNSON. No, sir.

The CHAIRMAN. Did you have anything to do with steel ships?

Mr. JOHNSON. Yes; one contract—well, we had all the steel yards here; they all came under my supervision, as well. Samuel L. Moore's yard at Elizabethport, Staten Island Shipbuilding Co., and Standard Shipbuilding Co.

The CHAIRMAN. And the Downey?

Mr. JOHNSON. Downey was getting a contract at that time. I did not meet Mr. Downey until after he came from Washington with his contract.

The CHAIRMAN. After they got started building ships here, were the inspectors under your supervision?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. How many inspectors did you have, do you know?

Mr. JOHNSON. I had one at each yard.

The CHAIRMAN. One?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. To inspect construction?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. Was that a sufficient number?

Mr. JOHNSON. It was at that time.

The CHAIRMAN. Why?

Mr. JOHNSON. They were very hard to find, men whom I would let qualify as inspectors, for one thing, and we did not have so much work going on while I was there that we could not get along with one man, and I supplemented the inspectors by daily visits myself. I was on the road continuously.

The CHAIRMAN. Did you have charge of the shipment of material into the yards?

Mr. JOHNSON. We did not have very much to do with that at that time.

The CHAIRMAN. Why not?

Mr. JOHNSON. Well, the material had not really started coming. During the latter part of my work there it was starting to come in, lumber from the South for the wooden ships, steel, and whatnot.

The CHAIRMAN. Did you pass on the original contract with the Groton Iron Works?

Mr. JOHNSON. That contract was sent to me completed, from Washington. I saw that Mr. Morse met every qualification to get his contract. He gave me a list of men whom he would employ in his shipyards as assistants in the different positions; he gave me a list of the manufacturers from whom he was going to get his machinery, not only for his yard but also his ships, and he met every qualification that I required of him at that time.

The CHAIRMAN. And while you were there the Groton Iron Works' contract was being carried out according to its letter?

Mr. JOHNSON. They were only constructing the ways; they had not gotten anywhere at all.

The CHAIRMAN. They had not started ships?

Mr. JOHNSON. No, sir.

The CHAIRMAN. Were there any new yards constructed while you were district officer here?

Mr. JOHNSON. The Foundation Co. put up a yard out on Newark Meadows. They got their contract in Washington. The yard was constructed under my administration.

The CHAIRMAN. Did the contract come direct from Washington?

Mr. JOHNSON. Yes, sir. Newburgh started at the same time, too; that was another yard.

The CHAIRMAN. Are you familiar with the contract of the United States Bureau of Survey with the Shipping Board?

Mr. JOHNSON. No, sir; I am not familiar with that contract.

The CHAIRMAN. This inspector that you had in each yard, was he in addition to the inspector of Lloyd's? Did they have one there, too?

Mr. JOHNSON. Oh, yes; we do not recognize Lloyd's inspector from an owner's standpoint. The owner has his own inspector. Lloyd's inspects for classification.

The CHAIRMAN. Were you consulted, or was your opinion asked, as to the wood-ship building program when you were in Washington at any time?

Mr. JOHNSON. There was quite a little reference made to it from time to time; no specific opinion. Gen. Goethals asked me what I thought of them, and I told him I did not think very much of them.

The CHAIRMAN. Were you present at any conference in Washington when any shipbuilders were called in and this matter was discussed?

Mr. JOHNSON. We discussed it the first time I went down there, with the Shipping Board themselves, and I asked Mr. Denman if he would not call in five men competent in shipbuilding to confer with the Shipping Board and get their opinion as to the best thing to do; and he said he thought that would be a splendid idea, but that is as far as it got.

The CHAIRMAN. As far as you know, it was not done?

Mr. JOHNSON. No, sir.

The CHAIRMAN. Well, at that time, Mr. Johnson, there were not very many experienced wood-ship builders in this section of the country, were there?

Mr. JOHNSON. Just as many at that time as there are now.

The CHAIRMAN. Well, were there many at that time?

Mr. JOHNSON. No; that is the reason why I asked him to name five. There were very few, but they could have been had.

The CHAIRMAN. You think there are no more now than there were then?

Mr. JOHNSON. No, sir.

The CHAIRMAN. Despite the fact that they have built a lot of wooden ships around in different yards?

Mr. JOHNSON. Well, they tried to.

The CHAIRMAN. And the experience has not taught them how to build wood ships?

Mr. JOHNSON. I would not say so; no, sir. You can not learn how to build a ship in a couple of years under war pressure.

The CHAIRMAN. The number of steel-ship builders at that time was not very large, was it?

Mr. JOHNSON. No, sir. The same statement applies there.

The CHAIRMAN. You think that the number of experienced, competent, steel-ship builders now——

Mr. JOHNSON (interposing). Have been very little augmented by the shipbuilding during the war.

The CHAIRMAN. Were you called in on matters of design or specifications for contracts?

Mr. JOHNSON. No, sir.

The CHAIRMAN. On any of these ships?

Mr. JOHNSON. No, sir.

The CHAIRMAN. Were you familiar with the Ferris plant?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. Was that a good type of ship?

Mr. JOHNSON. Wooden ship?

The CHAIRMAN. Yes.

Mr. JOHNSON. I would not qualify as a wooden-ship builder.

The CHAIRMAN. You couldn't?

Mr. JOHNSON. I could, but I wouldn't.

The CHAIRMAN. You think you know, but you do not care to, is that it?

Mr. JOHNSON. That is it; yes, sir.

The CHAIRMAN. While you were district officer, did you inspect the actual construction of steel ships?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. In what yards?

Mr. JOHNSON. The Standard Shipbuilding Co., Staten Island Ship, Samuel L. Moore & Co.; they were mostly commandeered ships.

The CHAIRMAN. Oh, they were requisitioned on the ways under construction?

Mr. JOHNSON. Yes, sir; they were under construction on private contract.

The CHAIRMAN. And whether or not they were constructed along the lines and requirements of the original contracts?

Mr. JOHNSON. Yes, sir. We did not change any of the contracts. They started to change them and make them for war service later on.

The CHAIRMAN. Were you there when these various changes of specifications came over the wire and through the mails daily and hourly?

Mr. JOHNSON. On the wooden ships?

The CHAIRMAN. On either.

Mr. JOHNSON. Well, we did not have any steel ships under construction at that time; but the wooden ships, yes, sir; we had them in every mail.

The CHAIRMAN. What was the situation with wooden-ship construction, about changing designs and specifications and supplementing the contracts, or any other matters of that sort?

Mr. JOHNSON. Well, it was changed to suit a great many contingencies that arose as they went on.

The CHAIRMAN. Might they have been foreseen before construction work began?

Mr. JOHNSON. It is possible.

The CHAIRMAN. How would it have been possible?

Mr. JOHNSON. By the appointment of such a board as I previously mentioned.

The CHAIRMAN. Of experienced men?

Mr. JOHNSON. I think so.

The CHAIRMAN. Who was in charge of the awarding of these contracts at that time in Washington?

Mr. JOHNSON. Gen. Goethals, I imagine.

The CHAIRMAN. Did he not have some naval architect advising him?

Mr. JOHNSON. Mr. Ferris designed the ship, and the ship might have stood as originally designed, but it never got a chance to stand on that basis; it was continuously changed.

The CHAIRMAN. Well, who changed it?

Mr. JOHNSON. I could not tell you where the changes came from. As they went out the lumber committee might have had something to do with it. Lots of little things that did not amount to very much were called changes. They specified black locust treenails—"trun-

nels," as we call them, treenails you spell it. They finally accepted oak. That was a change; anything of that character was a change. But I think when Admiral Capps got there they went very seriously into the design of the ship, and they increased the depth of the floors, which was quite a tremendous change.

The CHAIRMAN. Then they began making such changes as would result in a new type, a different type perhaps?

Mr. JOHNSON. I do not think they ever changed the lines of the ship; that is, the model, but they changed the construction.

The CHAIRMAN. What was the occasion of your resigning in October, 1917?

Mr. JOHNSON. I did not want to serve under the Navy.

The CHAIRMAN. Under the Navy?

Mr. JOHNSON. Admiral Capps and Admiral Bolles and Capt. Snow, and a great many others down there, they were all Navy men, and I was not a Navy man, and I thought I should not be there.

The CHAIRMAN. Did you have any controversy or difficulty with them?

Mr. JOHNSON. Yes, sir; I had a controversy with Admiral Bolles.

The CHAIRMAN. What about?

Mr. JOHNSON. About investigating Mr. Ferris's office.

The CHAIRMAN. What was that about?

Mr. JOHNSON. He wanted me to investigate Mr. Ferris's office, and I refused to do it. I had resigned previous to that, and he would not accept it.

The CHAIRMAN. To investigate what in Mr. Ferris's office?

Mr. JOHNSON. He wanted me to dig into all of his business affairs over there. Mr. Ferris and myself have been friends; we have been competitors in a friendly way of business. He is a naval architect and so am I, and I refused to perform that service, and I told Admiral Bolles that I would not do it; and he gave me an order to do it and I confirmed my refusal with my resignation. And several weeks after that I got a letter from Admiral Capps, thanking me for my services to the corporation and accepting my resignation.

The CHAIRMAN. Was there any other matter involved in your separation from the Fleet Corporation?

Mr. JOHNSON. Not that I know of.

The CHAIRMAN. Were these naval men apparently in charge of the construction program at that time?

Mr. JOHNSON. No question about that; they were absolutely in charge.

The CHAIRMAN. But later they relinquished their positions, did they not?

Mr. JOHNSON. Well, they had two or three general managers of the Shipping Board, the Emergency Fleet.

The CHAIRMAN. Was there anything about the manner in which they were carrying on the program to which you objected?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. What was it?

Mr. JOHNSON. I thought there was entirely too much red tape connected with it.

The CHAIRMAN. You do not know anything about the red tape in those days and the red tape months after you resigned, do you, in the Shipping Board?

Mr. JOHNSON. Well, only what everybody knows from reading.

The CHAIRMAN. You did not again enter the service of the Shipping Board?

Mr. JOHNSON. Not the service of the Shipping Board directly, but indirectly; Mr. Piez asked me to go with the George A. Fuller Co. as their shipbuilder, so that they could get a contract to build some ships at Wilmington, N. C., and I went there as vice president.

The CHAIRMAN. What was the Fuller Construction Co.?

Mr. JOHNSON. Called the Carolina Shipbuilding Corporation.

The CHAIRMAN. You were vice president of that?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. How many ships did they have a contract for?

Mr. JOHNSON. We got a contract for 12.

The CHAIRMAN. How many did they build?

Mr. JOHNSON. They did not build any while I was there.

The CHAIRMAN. How many did they start?

Mr. JOHNSON. We had four ways, and we started four ships.

The CHAIRMAN. How long did you stay with them?

Mr. JOHNSON. I was there until January 30, 1919.

The CHAIRMAN. And they had not launched any ships?

Mr. JOHNSON. No, sir.

The CHAIRMAN. How many have they launched since then?

Mr. JOHNSON. I understand they have delivered four or eight, I am not sure; I think it is eight.

The CHAIRMAN. Where was it; at Wilmington, N. C.?

Mr. JOHNSON. Wilmington, N. C.; yes, sir.

The CHAIRMAN. Did they have a going plant there?

Mr. JOHNSON. No; it was built; it was built under a contract.

The CHAIRMAN. You say Mr. Piez asked you to go there?

Mr. JOHNSON. Well, Mr. Piez told Mr. Paul Starrett to get a shipbuilder, and he would give him a contract, because he thought that the Fuller Co. should utilize their tremendous force and energy to help build ships. Mr. Starrett and myself have been friends for a long while, so he mentioned my name, and Mr. Piez said, "Get him. If you don't get him, I will commandeer his services." So I had to go. I was then operating my business again in New York.

The CHAIRMAN. How was he going to commandeer your services?

Mr. JOHNSON. Well, that was in the wind then. They would commandeer anybody's services in those days. I did not ask the question, I simply went.

The CHAIRMAN. And how long do you say you stayed there, Mr. Johnson?

Mr. JOHNSON. We started, I think, in April, and I stayed there until January. I lost my wife down there, and I stopped at that time.

The CHAIRMAN. That was the reason for your leaving?

Mr. JOHNSON. That was the end of it; yes, sir. I resigned the day the armistice was signed, because I was not in sympathy with the building at that time. I did not think it would do any good, and of course as soon as the armistice was signed I thought all this new shipbuilding should be stopped, and I agreed to stay there until the 1st of February.

The CHAIRMAN. About that time they did begin canceling contracts right and left, did they not?

Mr. JOHNSON. It was after that time they started to cancel.

The CHAIRMAN. In March?

Mr. JOHNSON. I think so.

The CHAIRMAN. Did you have any other connection or association with firms doing business with the Shipping Board after you left the Carolina Shipbuilding Co.?

Mr. JOHNSON. Not directly with the Shipping Board contracts. Before I went with the Carolina I got a contract for the Johnson Iron Works in New Orleans to build six steel tugs.

The CHAIRMAN. Did they construct them?

Mr. JOHNSON. They did, and they are the only shipyard in the South that went through on contract payments, without assistance from the Shipping Board. That is a matter of record.

The CHAIRMAN. Without assistance from the Shipping Board?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. I have forgotten; did you say they had a going concern there at the time they secured the contract?

Mr. JOHNSON. Yes, sir; my father established that plant 60 years ago.

The CHAIRMAN. And they built six steel tugs?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. Without financial assistance from the Shipping Board?

Mr. JOHNSON. Well, on a regular lump-sum contract; yes, sir.

The CHAIRMAN. I mean, they did not have to have any money loaned them?

Mr. JOHNSON. No; they did not.

The CHAIRMAN. Or advanced them, outside the terms of the original contract?

Mr. JOHNSON. No.

The CHAIRMAN. And they delivered them in accordance with the terms of the contract?

Mr. JOHNSON. Yes, sir; they were all completed and delivered.

The CHAIRMAN. Were you there while that construction work was going on?

Mr. JOHNSON. No; I was in New York. I have always been a New Yorker.

The CHAIRMAN. Have you any questions, Mr. Kelley? I think that is all, Mr. Johnson.

TESTIMONY OF MR. GEORGE S. WATT.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. What is your name, Mr. Watt?

Mr. WATT. George S. Watt.

The CHAIRMAN. Where do you reside?

Mr. WATT. Philadelphia.

The CHAIRMAN. What place?

Mr. WATT. 738 South Cicil Street is the number.

The CHAIRMAN. Are you employed by the Shipping Board or the Fleet Corporation?

Mr. WATT. I am.

The CHAIRMAN. In what capacity?

Mr. WATT. I am now manager of the sales and warehouse section of the east district supply and sales.

The CHAIRMAN. Under whom?

Mr. WATT. Under Mr. Robert I. Laggren.

The CHAIRMAN. How long have you been employed by the Fleet Corporation?

Mr. WATT. Since August 1, 1919.

The CHAIRMAN. And what position did you hold prior to the one you now hold?

Mr. WATT. I was first supervising storekeeper, from August 1, 1919, to January 1, 1920.

The CHAIRMAN. Then what?

Mr. WATT. Then I was made head of the material section from the 1st of January until the 1st of May.

The CHAIRMAN. And then what?

Mr. WATT. Made head of the sales section.

The CHAIRMAN. Where you now are?

Mr. WATT. No, sir. On October 1 of this year I was made manager of the sales and warehouse section.

The CHAIRMAN. What do your duties comprise now? What jurisdiction and authority do you have?

Mr. WATT. I have charge of the storing of all material, the keeping of records of all material, the disposing of all material, marketing, selling it.

The CHAIRMAN. Do you have charge of the inventories?

Mr. WATT. I do, sir. I have charge of the inventories after they are turned over to me.

The CHAIRMAN. But not the making of them?

Mr. WATT. No, sir. We have an inventory section for that purpose.

The CHAIRMAN. Is that inventory section in your division?

Mr. WATT. Yes, sir; it comes under my direction. Mr. L. H. Parker is head of the inventory section.

The CHAIRMAN. Since October 1 you have had charge of the storing of material?

Mr. WATT. Yes, sir.

The CHAIRMAN. Did you have charge of it before then?

Mr. WATT. Yes, sir; I did, in a way.

The CHAIRMAN. Did you order the material transferred from the yards to the concentration plants?

Mr. WATT. I did, after November 1, 1919. Before that time, before the centralization of the home office, that was done by what we call the home office, the director of the supply and sales office. They issued all salvage shipping instructions, ordering material moved from any given point into a concentration yard.

The CHAIRMAN. Who was responsible for the disposition of the property when it reached the concentration plant? Take, for instance, at Wilsons Point?

Mr. WATT. At Wilsons Point it came under my care on October 1, 1920.

The CHAIRMAN. Before you?

Mr. WATT. I could not tell you, sir.

The CHAIRMAN. Well, was there considerable of it sent there after October 1, 1920?

Mr. WATT. No, sir.

The CHAIRMAN. Most of it had been sent there?

Mr. WATT. I do not know of any shipments going there since that date, sir.

The CHAIRMAN. Most of it had been sent there?

Mr. WATT. I should say so.

The CHAIRMAN. And how about this Hog Island?

Mr. WATT. Hog Island has been a concentration yard. They have been shipping material in there constantly ever since 1918, away back. I can tell you, Mr. Chairman, prior to the change in the procedure, prior to the appointment of Mr. H. B. Miller, director of the supply and sales, it was the custom to ship material from a manufacturing point, or any shipyards not the property of the Emergency Fleet Corporation, into a concentration yard. Mr. Miller does not approve of that method. He approves of selling the material as is and where is, disposing of it without adding that additional cost of handling.

The CHAIRMAN. Have you disposed of material that way?

Mr. WATT. Lots and lots of it since I have gotten a little authority to do it.

The CHAIRMAN. Without this additional shipment?

Mr. WATT. Let the man that buys it pay the freight on it.

The CHAIRMAN. In your judgment, could this vast quantity of material, scattered around through dozens of yards, have been disposed of to advantage in that way?

Mr. WATT. A trial could have been made. I do not say that all of it could have been, but a portion could have been.

The CHAIRMAN. Well, you have disposed of it that way, have you not?

Mr. WATT. Of the majority of it.

The CHAIRMAN. Well, I mean the trial you have made has shown you that it can be done?

Mr. WATT. Yes, sir.

The CHAIRMAN. And it has been done?

Mr. WATT. I would not say in all cases. In some few cases we have been forced, owing to conditions of not owning the property where the material is, for quick removal we did not have time to sell it, we were forced, the storage was so high, to move it. Some few cases we moved into a concentration point.

The CHAIRMAN. Did you have charge of the removal of these uncompleted hulls from the ways?

Mr. WATT. Nothing to do with that at all, sir.

The CHAIRMAN. You do not know anything about the contract for that?

Mr. WATT. I did not draw it; it was drawn in Washington by the home office.

The CHAIRMAN. And do you have to supervise that at all in any way?

Mr. WATT. If it is in a yard that comes under my jurisdiction I do; my men do, sir.

The CHAIRMAN. Have the uncompleted hulls been removed from the ways in your district?

Mr. WATT. They have, sir, as far as I know. I do not know of a—

The CHAIRMAN. Do you know whether or not ways from which these uncompleted hulls have been removed have been converted to other uses?

Mr. WATT. Well, sir, I could not tell you. There are only two yards—three yards that I know of—that we had hulls to be removed from, namely, the Moorehead City (N. C.) yard; I think that is the Carolina Shipbuilding Co.; and at Henry W. Smith Sons & Co. yard at Baltimore, Md.; and at the Maryland Shipbuilding Co.'s plant, which is now known as the Baltimore Storage Yard, at Sollers Point, Md. At those three yards I can tell you positively that the hulls have been removed.

The CHAIRMAN. What has become of the yards?

Mr. WATT. The yards are the property—one is the property of the Carolina Shipbuilding Co., at Moorehead City; Henry Smith owns another yard; the other concentration yard has been sold in its entirety to the National Metals Co., of New York City.

The CHAIRMAN. The National Metals?

Mr. WATT. Yes, sir.

The CHAIRMAN. Do you know whether there is any construction work going on at the Carolina Ship or the Smith yard?

Mr. WATT. Only from hearsay.

The CHAIRMAN. What is the hearsay you know?

Mr. WATT. There is not.

The CHAIRMAN. And the ways still remain there vacant?

Mr. WATT. Yes, sir.

The CHAIRMAN. In what condition were the inventories of material taken by the cancellation department when you came to take charge?

Mr. WATT. The only inventory that the cancellation section takes, sir, is the material that is surplus and salvage, which is turned over to us to be disposed of. That is turned over on a certification. Eight copies come to the director of the supply and sales. That is the only inventory that I know of that the cancellation section have ever taken, unless it is the inventory of material that is left over from a canceled contract at a manufacturer's plant, and which is turned back to the manufacturer in settlement of his claim, his cancellation claim.

The CHAIRMAN. You get an inventory; these eight copies are made of this. Do you check it up?

Mr. WATT. The basis of all work in the Emergency Fleet Corporation, supply and sales, for all purposes is a certification. It is made out in eight copies. When it comes to us that first is entered into a register book, simply for a record of it. Then it goes to the appraisal section. If it is a small lot of material and an appraisal engineer can be sent to the manufacturing plant, he inventories it and appraises it. After it is inventoried and appraised that certification is then signed by the head of the appraisal section, then transmitted to Mr. Laggren, who signs it, then to the district comptroller, and he or his representatives sign it—in fact, the district comptroller signs all certifications. After this, it is termed an accomplished certification. A copy of it then comes to me as head of the sales section, to dispose of this material.

The CHAIRMAN. Well, now, it has been signed and countersigned and certified.

Mr. WATT. And audited.

The CHAIRMAN. And delivered and audited and entered in the register.

Mr. WATT. Yes, sir.

The CHAIRMAN. Do you ever make an examination to find out if that is a correct inventory, if the stuff they say is in a certain plant is there?

Mr. WATT. I just stated that our appraisal engineer and inventory man—or if it is a big lot of material we send two men; if it is a handful we send one man, and he jointly inventories it and appraises it at the same time.

The CHAIRMAN. These men are under your jurisdiction?

Mr. WATT. They are under my jurisdiction. The inventory man is, but no appraisal engineers are under the jurisdiction of anybody connected with the sales or with the district. They come under the home office, sir.

The CHAIRMAN. What do you say as to the inventories that have been transmitted to you; have you found them to be correct and accurate?

Mr. WATT. In the majority of cases we sell right from the certification, and they are correct; with a few exceptions, which you will find in any line of business.

The CHAIRMAN. No serious errors?

Mr. WATT. No serious errors.

The CHAIRMAN. Or omissions?

Mr. WATT. No, sir.

The CHAIRMAN. Have you charge of the delivery of property to the Barde Co. under its contract?

Mr. WATT. On material located in the eastern district, I have, sir.

The CHAIRMAN. Do you know of the controversy over the interpretation of the term "fabricated steel" in that contract?

Mr. WATT. No, sir; nothing whatever. The contract is interpreted by Washington, by the home office.

The CHAIRMAN. Had you delivered any steel prior to this controversy?

Mr. WATT. Oh, yes, sir. If you will allow me, Mr. Chairman, I will explain the procedure for the delivery of the Barde steel.

The CHAIRMAN. I wish you would.

Mr. WATT. All material, whether steel or what not, before it can be turned over to the sales section or the district director of the supply and sales for disposal, must be certified. As I stated, there are eight copies. One copy of the original certification goes to Washington. They have a man down there, Mr. E. O. Bratt, head of the material section, who, when he gets a certification covering a lot of steel at any given location, in turn certifies that material to the Barde Steel Products Co. He sends them a certification, and they in turn furnish him shipping instructions. He simply transmits the shipping instructions to the district director, Mr. Laggren. That comes to me; I am his assistant and in his office. We do nothing but deliver. We check every ounce of steel that leaves a yard as it is loaded out.

There are six copies of the tally sheet, and everybody concerned gets a copy—your district comptroller, your district director, Washington, the head comptroller in Washington. It is the most thorough system I have ever experienced, very, very thorough.

Mr. WATT. Absolutely. Everybody concerned gets a copy, sir, of that paper. In addition to this we have a steel record in our office.

When the certification comes in we set up a stock record card in the district office, showing every piece of steel—size, amount. When it is shipped out we deduct it from that stock record. We have a perpetual inventory, sir, in the district office, of all material as well as steel—especially steel.

The CHAIRMAN. Do you make delivery of lumber under the American Lumber Sales Co. contract?

Mr. WATT. Yes, sir; I have since the contract first went into force.

The CHAIRMAN. Have any members of your organization been used as an auxiliary sales force for the American Lumber Sales Co.?

Mr. WATT. Absolutely not, sir. Mr. Chairman, I might add that there are quite a few Fleet employees who worked in these different yards after the lumber contract went into force, that we discharged or released, who were hired by the American Lumber Sales Co. But they absolutely had nothing to do with the selling or the checking of the lumber. All lumber delivered to the American Lumber Sales Corporation is checked by a Southern Pine lumber inspector, an appointed man, hired by the Emergency Fleet Corporation at a salary of \$10 per day. That is my understanding; that salary proposition is only in rumor. I have not a copy of that contract, sir.

The CHAIRMAN. What do they check it for?

Mr. WATT. Final judgment, to pass.

The CHAIRMAN. Oh, yes; the quality of lumber.

Mr. WATT. They grade it and check it. That was in the contract, if you have read the contract.

The CHAIRMAN. Yes.

Mr. WATT. It recites plainly in there that they are the final judge of all lumber delivered, as to grade and counting, measurements, sizes, and all.

The CHAIRMAN. Are you familiar with the incidents in the Greenberg contract for scrap junk?

Mr. WATT. Junk scrap? That matter was handled entirely by Mr. R. E. Kline, at that time district director of the eastern district.

The CHAIRMAN. Mr. Laggren succeeded him?

Mr. WATT. Yes, sir. That contract was handled personally between Mr. Kline and Mr. Greenberg.

The CHAIRMAN. Were you with the supply and sales department when Mr. Kline was there?

Mr. WATT. Yes, sir; Mr. Kline came there on December 1, 1919.

The CHAIRMAN. Were there a number of inefficient employees in the department there under him?

Mr. WATT. Why, not to my knowledge; no more than you would find in any organization of that size, sir.

The CHAIRMAN. Was a considerable reduction in the force made when Mr. Laggren took charge?

Mr. WATT. Yes, sir.

The CHAIRMAN. A number of the employees were dropped?

Mr. WATT. Yes, sir.

The CHAIRMAN. Quite a saving in the pay roll resulted?

Mr. WATT. Yes, sir.

The CHAIRMAN. Were the men who were dropped efficient or inefficient?

Mr. WATT. Well, Mr. Laggren and myself jointly used our judgment in reducing, and if we let any good ones get away from us it was an accident. We did not do it on purpose, sir.

The CHAIRMAN. You kept the good men?

Mr. WATT. Yes, sir.

The CHAIRMAN. And let the less capable go?

Mr. WATT. Yes, sir.

The CHAIRMAN. How long do you think it will be before the Government can dispose of its surplus material under the present plan?

Mr. WATT. That is a pretty deep question, Mr. Chairman, and it is a big question. We are averaging now \$1,000,000 per month in sales.

The CHAIRMAN. Have you got any idea of the value of the material you have for disposal in this section?

Mr. WATT. Why, approximately \$80,000,000, I should say, in the whole district.

The CHAIRMAN. This \$1,000,000 a month—have you had that average for very long, or is that increasing or decreasing?

Mr. WATT. That average was a little better; but since 60 days ago, you might say, since the market has softened somewhat, we are only averaging just on the average of around \$250,000 a week, around \$1,000,000 a month, approximately.

The CHAIRMAN. If you do not better your average it will be quite a long story, will it not, Mr. Watt?

Mr. WATT. Well, in my opinion, that average will be bettered, sir.

The CHAIRMAN. When good times come?

Mr. WATT. Well, our organization is getting more efficient every day.

The CHAIRMAN. Well, do you think that the Government should stay in the market and keep its price up on this material?

Mr. WATT. I do, unless they can make a sale which will be of advantage to them of all the material in a lot. If they can make a clean sale at a good fair price, and by figuring our overhead it is to their advantage to get out, I say, get out. If it is gone into properly, and they decide it is to our interest to keep at it, why, let us keep at it and close it out.

The CHAIRMAN. Well, now, there is no possible way the Government can get out from under this situation without charging off considerable loss, is there?

Mr. WATT. No, sir; we are going to have a loss any way you take it. This material was bought at war-time prices.

The CHAIRMAN. Yes, sir.

Mr. WATT. It is appraised on the present-day market and it has got to be sold on the present-day market.

The CHAIRMAN. Now, do you know whether the Government has a lot of this material that it can reallocate for its repair needs on its own fleet?

Mr. WATT. This we have in each warehouse and compensation yard and are centered under Forms 307 and 307a. One is current material and the other surplus and salvage. The current material is the material that we know will be required for the operation of our own vessels. That is being held intact for the division of operations. We delivered tons of materials every day out of the warehouses to the division of operation and repairs for the boats, such as engine repairs, repairs of pumps, and all such class of material.

The CHAIRMAN. Lifeboats?

Mr. WATT. Lifeboats, anchors, chains, practically all kinds of ship fitting material is delivered out of our stock daily to the Government boats for their use.

The CHAIRMAN. Are you familiar with the Kent Avenue inventory?

Mr. WATT. Yes, sir; I am.

The CHAIRMAN. Will you illustrate what was done there?

Mr. WATT. The Kent Avenue inventory was taken on instructions from the home office in Washington, the complete inventory.

The CHAIRMAN. By whom?

Mr. WATT. By the inventory section at Washington; they have a head of the inventory section in Washington as well as we have a head of the inventory section in each district. This inventory was taken at Kent Avenue, the complete detailed inventory by items. Unfortunately, in taking that inventory it was not taken in two parts, as it should have been, one for the current material that was needed for open use, and the other of surplus and salvage. But immediately upon discovering this, Mr. L. H. Parker, head of our inventory section, in the eastern district, took the inventory and went through it and stamped with a rubber stamp current material. In other words, the division of operations to be held for use, current needs, instead of being sold, as was the case of the surplus and salvage material, which we know will absolutely not be required in the operation of our own boats.

The CHAIRMAN. Where is that?

Mr. WATT. Kent Avenue, Brooklyn.

The CHAIRMAN. Oh, Brooklyn?

Mr. WATT. Yes.

The CHAIRMAN. Well, now, then, when you make this inventory and you stamped it current, or to be held, do you notify the division of operations?

Mr. WATT. Well, understand, the division of operations' warehouses and purchasing department has lately been transferred to the supply and sales, and are now under the jurisdiction of the supply and sales. The reason for that complete inventory being taken was for this purpose: We have got to credit the division of operations with all of the material in that warehouse.

The CHAIRMAN. Why?

Mr. WATT. Why? It is a separate unit, another division; it is on their books. The material has all got to be charged into the supply and sales.

The CHAIRMAN. What is the division of operations doing with a lot of the material that they have no use for?

Mr. WATT. Surplus material, I suppose, has been shipped into the warehouses at different times, some of it dilapidated lifeboats, when they and a lot of material was taken off different vessels; there is a lot of scrap over there in the surplus, scrap that is not needed. They have been using much of this material, and that which they can not use; that is surplus and salvage for disposition, but the major portion of that is absolute scrap, like old lifeboats, dilapidated and of no use.

The CHAIRMAN. Where did the old lifeboats come from?

Mr. WATT. Off of old vessels, the property of the fleet.

The CHAIRMAN. Well, you would not call them current material to be held, to be put back on ships, would you?

Mr. WATT. That has been surplus, considered as surplus and salvage, and we are now disposing of them.

The CHAIRMAN. Selling them?

Mr. WATT. Yes.

The CHAIRMAN. What is the character of the material there that came from the division of operations that you took an inventory of and marked it current, to be held for use of the fleet?

Mr. WATT. That is galley equipment—pumps.

The CHAIRMAN. How did that ever get into the division of operations?

Mr. WATT. Why, they are using that daily, Mr. Chairman, for the boats.

The CHAIRMAN. But before you inventoried it. You said it was in the division of operations.

Mr. WATT. Why, the division of operations operated their own warehouses before they were turned over to supply and sales. Where they stored their materials they were kept. And when they came into port and they had lost an anchor or lost a lifeboat or a dish was broken they would get one to replace it out of their warehouse.

The CHAIRMAN. That was in the division of operations?

Mr. WATT. Yes.

The CHAIRMAN. So that it had been taken out of the division of operations and certified to surplus, reinventoried, and then marked to be held?

Mr. WATT. The whole set-up was changed. The purchase department and the warehousing end of the game and all about 60 days ago was transferred over to supply and sales. A changed set-up in the whole proposition.

The CHAIRMAN. Do you know why that was done?

Mr. WATT. Yes, sir; because we are handling the material and we are in a position to put it together under one head, to make it a more efficient organization. We know what we have done in the surplus stock. We are in constant touch daily with the purchase agent of the division of purchases, and we have our records available for him, and we stop purchasing material from the outside, from commercial houses, if we have that material in stock.

The CHAIRMAN. Why would not the division of operations know all that, when this was under their charge and in their warehouses? Why couldn't they take care of that?

Mr. WATT. They were doing it this way: They were down on Chestnut Street and we were up on North Broad. You might take your stock record books down there or you might come up there and inquire what there was. Now, we are side by side within 2 feet of each other.

The CHAIRMAN. That was to save delay?

Mr. WATT. To save delay and make it more of a business proposition. In other words, we are profiting by our past experiences. We are learning as we go along.

The CHAIRMAN. How long has this other plan obtained until it was changed 60 days ago—how long has that condition continued?

Mr. WATT. At all times.

The CHAIRMAN. That had run along all the time?

Mr. WATT. Yes, sir; that was always inventoried, but there was, you see, with all this material, distributed as it was, they decided to make a change. That was decided by the officials in Washington, that this would make a better proposition, and more efficient proposition, by having our plants all more compact, closer together.

The CHAIRMAN. You think so?

Mr. WATT. I know so.

The CHAIRMAN. You do?

Mr. WATT. Yes.

The CHAIRMAN. Has not that resulted in having to ship a lot of material from one point to your warehouse and then having to ship that back again whenever a ship wanted it?

Mr. WATT. No; these warehouses are all up here, where they were; one in Norfolk, one in Baltimore, one in Philadelphia, and one at Kent Avenue here, and one at Boston, we have not shipped anything so far, gentlemen. We have just changed the record, which is the transfer that has taken place, from the division of operations over to the division of supply and sales, without in any instance the goods having been moved, and the change has been for the betterment of handling it. If you put your warehousing game under an experienced storekeeper and warehouseman, he is going to cut down your overhead.

The CHAIRMAN. We had some testimony here a few days ago, that the Shipping Board purchased some lifeboats from a man who had bought them from the Navy Department, repainted them and sold them at a considerable advance to the Shipping Board.

Mr. WATT. That is possible.

The CHAIRMAN. And that at the same time the Shipping Board had brand new boats of its own in storage plants and concentration plants at Wilsons Point.

Mr. WATT. The same capacity lifeboats?

The CHAIRMAN. The same type.

Mr. WATT. To carry the same number of people?

The CHAIRMAN. I don't know whether that was so or not.

Mr. WATT. Well, if it is so, it is bad business, but I don't believe it is so, sir, because we have a record, a double record of everything that we have got in our storage yards, and whenever we may need a lifeboat, we know whether we have it, if it is a 24-foot boat carrying 40 people or if it is a 26-foot boat carrying 44 people, we know whether we have one of those or not from our records.

The CHAIRMAN. Do not you ever verify the supply of lifeboats?

Mr. WATT. Yes, sir. Were they small ones? It might have been for a smaller capacity, of say, 20 people, which we were out of and didn't have in our store, which were needed, and we could not supply, perhaps, out of our surplus stock those sizes of those boats.

The CHAIRMAN. Then the difference of four people would be sufficient to warrant the Shipping Board in buying secondhand Navy boats, repainted?

Mr. WATT. I didn't say 4 people; I say for a boat of 44-people capacity or 40, whether a 24-foot or 26-foot boat, or whether intended

for 20 passengers, which is a difference of from 20 to 24 people, and not a difference of 4 people.

The CHAIRMAN. I understood you to say a while ago four people.

Mr. WATT. My voice is very husky, and you must excuse me; I can not express myself like I would like to.

The CHAIRMAN. Do you know of any person who was employed by your department in a position of responsibility and trust, who might assist in directing the policy of the supply and sales division, or who had been conferring with reference to it, who had gone into the employ of any of these concern having large contracts with the Shipping Board for surplus materials? Barde, the American Sales Lumber, the Southern Scrap Material?

Mr. WATT. No, sir; the Southern Scrap Material I know absolutely nothing of. That comes under the southern district. The Barde contract has already been established here, and that Mr. Waverly, formerly an employee of the Emergency Fleet, is with them now. The American Lumber Sales Corporation, I know of no one who was in authority who was with the fleet. The only thing is one man that I recall, Mr. H. M. Birch, who was superintendent of lumber storage yard No. 21, at 921 Delaware Avenue, Philadelphia, who is now working in the capacity of a superintendent of the lumber yard for the American Lumber Sales.

The CHAIRMAN. Do you recall any controversy with this American Lumber Sales Co., or any other concern who had a contract with the Fleet Corporation or Shipping Board for surplus lumber, which arose over their recutting certain pieces of timber, so as to make these fall within classifications, down in some of these yards through the South?

Mr. WATT. Quantico, Va.; I stopped the shipping of lumber out of the yard myself.

The CHAIRMAN. What were the circumstances of that instance?

Mr. WATT. I was not satisfied with the break on the checkings that were made from the southern-pine inspector; therefore I ceased operations until I could go down there myself and investigate the matter.

The CHAIRMAN. What did you find?

Mr. WATT. I found this, that the checking of the lumber by the checker at that yard was being done by the actual measurement, whereas the American Lumber Sales contract called for fletched lumber, which is not square by square lumber, which would be according to the way it would naturally come from the mill, and they had a little Southern Pine man there who was in the habit of giving the other measurements, and there was a lot of internal trouble between that man at the yard—that is, between the Southern Pine man—and while I didn't think it amounted to a whole lot, we got rid of this Southern Pine man and got another man in there to check it off according to our notion of the situation, and then we checked the lumber out and let it go out.

The CHAIRMAN. Was there any evidence in your mind of collusion between this Southern Pine man and the American Lumber Sales Co., giving them a better break than they were entitled to?

Mr. WATT. No; I did not think he did do much in that line, because I had a bulldog down there looking after my interests—who was looking after things—and I could depend on him; he was an honest man.

The CHAIRMAN. This Southern Pine man, he was there to look out for the interests of the Shipping Board, too, wasn't he?

Mr. WATT. At that yard I had a double check on at that time, and——

The CHAIRMAN. I say, he was supposed to be looking out for the Shipping Board, wasn't he?

Mr. WATT. Yes, sir.

The CHAIRMAN. The Southern Pine man?

Mr. WATT. Yes. The Shipping Board was paying him.

The CHAIRMAN. And he was not doing it satisfactorily there to your man or to yourself?

Mr. WATT. No.

The CHAIRMAN. So you had him removed?

Mr. WATT. Yes.

The CHAIRMAN. Now, then, what I want to know is, did you see any evidences there of collusion or improper practices on his part in his dealings with the Sales Co.?

Mr. WATT. No, sir; I was only in the yard a day; you see, I am stationed at Philadelphia.

The CHAIRMAN. I didn't know but that you found that he was receiving something from them.

Mr. WATT. My checker and the Southern Pine checker would not agree on what the lumber would amount to that was to be shipped out.

The CHAIRMAN. Oh, yes.

Mr. WATT. And my man wired me and I immediately went to him.

The CHAIRMAN. A difference in judgment?

Mr. WATT. A difference in judgment in the matter, and the Southern Pine man was removed from that yard. They had some personal difficulty, the two men, and I removed him.

The CHAIRMAN. You left the bulldog there on the job?

Mr. WATT. He was a real bulldog, too, sir.

The CHAIRMAN. Any questions, Mr. Kelley?

Mr. KELLEY. What would be the monthly depreciation, on an average, of machinery stored outdoors?

Mr. WATT. Well, sir, machinery should not be stored outdoors in the first place; if it is, there are two classes of machinery—two classes of material, I should say. There is one class of material that it does not hurt to store in the open, that the weather will not deteriorate. There is another class that it will. We call it outdoor storage or inside storage—indoor storage. We try, in storing this material, to put all the valuable material that will deteriorate under the weather inside of the house—in the warehouse.

Mr. KELLEY. You try, as far as you have capacity, for storage?

Mr. WATT. Yes.

Mr. KELLEY. At that time, however, you had a lot of stuff outdoors deteriorating, and also right now?

Mr. WATT. There was a lot of stuff put outdoors, Senator, at the beginning of the job, that I have been getting indoors ever since.

Mr. KELLEY. But you think it is pretty well and all in now, do you?

Mr. WATT. Yes, sir; and that that is not indoors, that we do not have room for, has been thoroughly slashed—greased, and taken care of, to take care of the weather conditions this winter.

Mr. KELLEY. You don't have anything to do with the preparing of the inventory of the supplies and Government property left over at a manufacturing yard at all?

Mr. WATT. That is done by the cancellation board, who settles their claim.

Mr. KELLEY. You accept that as your authority?

Mr. WATT. By certification.

Mr. KELLEY. And then you take up and see what is put down, there as having been received by the Government?

Mr. WATT. Yes, sir; and then have it appraised and gone over.

Mr. KELLEY. Are you sure that the various ship operators always apply to you for such supplies as you have on hand?

Mr. WATT. We do not wait for them to apply to us; we are circularizing them with letters constantly.

Mr. KELLEY. I know. But here is a ship operator; possibly he owns a store of his own, has supplies for sale, such as you have surplus stores of. How do you know that he does not go to his own store and get these supplies, rather than buying them of you?

Mr. WATT. Well, if you get him in his own storeroom, he would not come to us for what he wants.

Mr. KELLEY. In his own storeroom. Not in his own storeroom, but in his own store.

Mr. WATT. Oh, his own store?

Mr. KELLEY. Owned and run by himself.

Mr. WATT. We don't know that. All we can do is to offer our material for sale to everybody we think would use that class of material.

Mr. KELLEY. I mean, now, a man who was operating a Shipping Board ship.

Mr. WATT. Oh, you mean a man who is operating a Shipping Board ship?

Mr. KELLEY. Yes.

Mr. WATT. Oh!

Mr. KELLEY. How do you know he buys such supplies of you as you have on hand?

Mr. WATT. Well, sir, if he does not first try to get them from the Government, I think it is time for an investigation. Our own people operating our own boats certainly should try our sales section first for material before trying to buy it outside.

Mr. KELLEY. Well, you don't know whether they do or not?

Mr. WATT. Oh, now I do. Since that has come up under us, and since the purchasing agent and purchasing officer is right in our office, nothing can be bought for the division of operations, nothing can be bought at all until there is a purchase order issued for it, or a purchase requisition; and before issuing that requisition for the various things that are wanted, we are notified of what that requisition order contains, and we know what our supplies are, as they are daily checked off, and we see what we can furnish out of our own stock first.

Mr. KELLY. But until you consolidated the books of the operations and sales, you could not tell whether that was done or not?

Mr. WATT. They were supposed to get in touch with us and find out whether we had the particular material wanted or not.

Mr. KELLEY. But the fact that they were supposed to does not mean that they did, did it?

Mr. WATT. Well, I know since October 1, or since the transfer from these various other warehouses, from the division of operations, and the purchase officer being located in our office of the supply and sales, we know that since then, whatever we have in stock is first disposed of, we are able to check up and see whether we have these things, and we are able to give it direct supervision, and we know that it is now being done.

Mr. KELLEY. And no new stuff is being bought in any of your warehouses or in stock anywhere?

Mr. WATT. No.

Mr. KELLEY. Have you got any storage which is not in use, any vacant storage?

Mr. WATT. No, sir; I know of none.

Mr. KELLEY. Do you have many storage bills?

Mr. WATT. Why, we only have, I think, in this district, we have Wilsons Point and Metuchen warehouses.

Mr. KELLEY. Is that a rented building?

Mr. WATT. I know the one at Wilsons Point is rented.

Mr. KELLEY. How about the one at Metuchen; how much for that?

Mr. WATT. Metuchen is \$20,000 a year, and the Wilsons Point I don't know, because that is under a special arrangement of some kind, the same as at Hog Island.

Mr. KELLEY. What is the monthly expense of your office?

Mr. WATT. The Philadelphia office?

Mr. KELLEY. Your monthly expense of your sales division in this district?

Mr. WATT. You mean the entire expense for the storing of material and warehouses?

Mr. KELLEY. Everything.

Mr. WATTS. Oh, why, I should say that our pay roll is around \$200,000 a year—I have the records in Philadelphia, but from my memory I think our pay roll runs something around \$200,000 a year—pay rolls, weekly pay rolls and inventories.

Mr. KELLEY. Does that include storage?

Mr. WATT. I think that is just the pay rolls; that is not the storage.

Mr. KELLEY. How often will you have to have an appraisal made of these goods?

Mr. WATT. Why, there is only one appraisal made; that is when the initial turnover comes.

Mr. KELLEY. Isn't there a depreciation going on all along that you have to take into account?

Mr. WATT. Oh, yes, sir; there is a depreciation, but the market governs that. If we have got an article worth \$100 in the market, it might be appraised for \$200. We might get 20 offers for that article and thoroughly test the market; then we know that there is something wrong. We can then take that up with Washington and ask them to reappraise it, or we can get permission from the director of the supply and sales to sell that under appraisal proposition.

Mr. KELLEY. And I suppose that if there are some articles that you are obliged to store outdoors, and that are depreciating on

account of the weather, that when the proper time comes to take them up and dispose of them there will have to be a supplemental appraisal there?

Mr. WATT. Well, under the present procedure at the present writing there is no procedure of reappraisal. The only time reappraisal can be made at present is by taking it up with the home office under a special dispensation for reappraisal.

Mr. KELLEY. Now, your chief says that there is about \$80,000,000 worth of material still on hand?

Mr. WATT. I said that.

Mr. KELLEY. You said that?

Mr. WATT. Yes.

Mr. KELLEY. \$80,000,000 of this stuff?

Mr. WATT. About \$80,000,000 worth.

Mr. KELLEY. \$80,000,000 worth of stuff, and you were selling about \$1,000,000 worth a month?

Mr. WATT. Yes.

Mr. KELLEY. That is 80 months, or about 7 years, to get rid of this stuff. You think it will take that long to close it out? What would be your answer to that? You expect to be in the business there six or seven years from now?

Mr. WATT. No, sir; I do not.

Mr. KELLEY. You think you will close it out in larger quantities?

Mr. WATT. Larger quantities.

Mr. KELLEY. As you go along?

Mr. WATT. Yes.

Mr. KELLEY. Take these storehouses at Wilsons Point and other places: you have in there surplus stuff alone?

Mr. WATT. That is all at Wilsons Point.

Mr. KELLEY. Where do you keep your current stuff?

Mr. WATT. In the warehouses. We have the surplus and current there, too. If there is anything there that is not current stock, it is in the surplus account.

Mr. KELLEY. The current stock is not being sold at all?

Mr. WATT. No; that is segregated from the surplus and salvage and so identified with a mark of identification, stored in separate shelves, and it is carried on a separate stock record ledger on a white sheet.

Mr. KELLEY. You don't know whether that policy has been pursued on the Pacific coast, with reference to the Barde contract, or not?

Mr. WATT. I am only familiar with the eastern district.

Mr. KELLEY. You would not advise, of course, selling the current stuff at all?

Mr. WATT. Nothing that is needed for our own requirements I would not advise selling.

Mr. KELLEY. There are certain classes of supplies that would last a very long time for our own ships?

Mr. WATT. Yes, sir.

Mr. KELLEY. But you would sell them and keep them right along, if you had a large stock of them?

Mr. WATT. No; when we have an overage, or surplus, we may have—for instance, in ship winches we may have 2,000.

Mr. KELLEY. Then you might sell part of those?

Mr. WATT. We would take that up with the division of operations, and get from them some idea of what their requirements would be for the next two years, or the next 12 months, and then if we find if there is a surplus, we would dispose of that surplus.

Mr. KELLEY. Now, have you taken that up with the division of operations?

Mr. WATT. Yes, sir; absolutely.

Mr. KELLEY. And have gone into those matters with them?

Mr. WATT. Yes.

Mr. KELLEY. How long a time have you thought it wise to keep these supplies; that is, keep a supply of these various supplies on hand; that is, of this stuff that is current, that is needed for current use?

Mr. WATT. I should say we have got on hand in some supplies—two years' limit would be the idea, I think, the average for material which is not perishable.

Mr. KELLEY. And such as you have, that will last longer than two years, you would put in the surplus and sell it?

Mr. WATT. Sell it out; yes, sir. There is no definite way of finding out right down to the minute about how much material we are going to require.

Mr. KELLEY. Oh, no.

Mr. WATT. All we can do is to investigate the matter thoroughly; go into it and make a conservative bid and decide approximately what our requirements will be for a given time.

The CHAIRMAN. That is all, Mr. Watt; thank you, sir.

TESTIMONY OF MR. ROBERT I. LAGGREN—Resumed.

The CHAIRMAN. Mr. Laggren, what have you to say as to the length of time you expect to take to collect together and clear up this surplus material which you have for sale?

Mr. LAGGREN. We are working as hard as we can at the present time to have everything cleaned up within one year.

The CHAIRMAN. Within a year?

Mr. LAGGREN. Yes.

The CHAIRMAN. If you are only selling at the rate of \$1,000,000 a month, of course if you do not better that average you can not do it.

Mr. LAGGREN. We are going to better that average by selling in large projects. We are working on these all the time. They are taking a good bit of our time in getting men to look at whole projects, whole warehouses like Wilson's Point warehouse or Metuchen Point warehouse or the Erie warehouse or an entire yard.

The CHAIRMAN. Taking a vast quantity?

Mr. LAGGREN. Taking a vast quantity at one location.

The CHAIRMAN. In order to do that do you think you will be able to keep up as near the market as you would by disposing of it in smaller lots?

Mr. LAGGREN. You could not keep up so near the market, but the cut-off in overhead will equal that difference.

The CHAIRMAN. Do you think the loss will be more than made up to the Government if it is done that way?

Mr. LAGGREN. Yes, sir; when you figure that we are cutting off a big overhead, and also when you figure on the general policy that the Government is better off without these things on their hands anyhow.

The CHAIRMAN. Any questions, Mr. Kelley?

Mr. KELLEY. No.

TESTIMONY OF MR. CHARLES E. BANZHAF.

(Duly sworn by the chairman.)

The CHAIRMAN. What is your name?

Mr. BANZHAF. Charles Edwin Banzhaf.

The CHAIRMAN. Where do you reside, Mr. Banzhaf?

Mr. BANZHAF. My permanent residence is 44 Stevens Street, Danbury, Conn.

The CHAIRMAN. Are you employed by the Shipping Board?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. In what capacity?

Mr. BANZHAF. Traveling auditor.

The CHAIRMAN. How long have you been with them?

Mr. BANZHAF. Ten months.

The CHAIRMAN. What was your occupation or profession?

Mr. BANZHAF. Public accountant.

The CHAIRMAN. Certified public accountant?

Mr. BANZHAF. I have not passed all of the examinations.

The CHAIRMAN. How old are you?

Mr. BANZHAF. Thirty-eight.

The CHAIRMAN. How long have you been in the accounting business?

Mr. BANZHAF. Ten years.

The CHAIRMAN. Who gave your appointment to you with the Shipping Board?

Mr. BANZHAF. I answered an ad, an ad in the New York Times.

The CHAIRMAN. You answered an ad in the New York Times?

Mr. BANZHAF. Yes.

The CHAIRMAN. Will you speak a little louder so we can all hear you?

Mr. BANZHAF. I received my appointment from Mr. H. D. Fielding, chief control accountant.

The CHAIRMAN. H. D. Fielding?

Mr. BANZHAF. Chief control accountant.

The CHAIRMAN. What district are you attached to?

Mr. BANZHAF. Attached to the home office.

The CHAIRMAN. In Washington?

Mr. BANZHAF. Yes.

The CHAIRMAN. What jurisdiction do you have; over what territory?

Mr. BANZHAF. At present I am traveling auditor in charge of traveling auditors in the port of New York.

The CHAIRMAN. In the port of New York?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. You say you have been with them for 10 months?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. You came the 1st of February?

Mr. BANZHAF. The 15th of January.

The CHAIRMAN. The 15th of January?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. What do you do?

Mr. BANZHAF. I am traveling auditor of the Division of Operations at the present time; I have a crew of men making an audit of the department of operations of the New York office. In addition to that, I am making an audit of the reconditioning work on the steamship *New Rochelle*, of the Baltic Steamship Co.

The CHAIRMAN. The steamship *New Rochelle*?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. Is that audit completed now?

Mr. BANZHAF. No, sir.

The CHAIRMAN. What was the occasion of your making it on that steamer; what is that transaction?

Mr. BANZHAF. Why, roughly speaking, the boat which is being bought from the Government on a charter-purchase plan——

The CHAIRMAN. By whom?

Mr. BANZHAF. By the Baltic Steamship Co. The Baltic Steamship Co. has advanced \$540,000 on the boat. The board at Washington has found, I was informed, that the Baltic Steamship Co. needed additional money to meet the expenses of reconditioning, and agreed to advance \$400,000. That is, I believe, has given that about the 1st of November. In order to satisfy themselves that the Government equity in that boat was protected, they directed me to make arrangements to have an audit made.

The CHAIRMAN. Now, wait just a moment. The *New Rochelle* was purchased from the Government on the charter basis?

Mr. BANZHAF. Charter-purchase plan.

The CHAIRMAN. Charter-purchase plan?

Mr. BANZHAF. Yes.

The CHAIRMAN. The Baltic Steamship Co. have paid \$540,000 to the Government?

Mr. BANZHAF. Yes.

The CHAIRMAN. On account of the purchase price?

Mr. BANZHAF. Yes.

The CHAIRMAN. What was the purchase price?

Mr. BANZHAF. The purchase price, I am informed—I have not seen the agreement; I have not been able to procure it; I was very desirous of doing so in order that I might be certain that the Government equity was protected if I made an audit. I have not received it, but I understand that the price is about \$985,000. I don't know that that is the exact amount.

The CHAIRMAN. Now, is the *New Rochelle* one of the former German liners, Hamburg-American liners?

Mr. BANZHAF. Yes, sir. The steamer *Hamburg*.

The CHAIRMAN. She was the steamer *Hamburg*?

Mr. BANZHAF. Yes.

The CHAIRMAN. Now, do you know who comprise the Baltic Steamship Co., who the officers are?

Mr. BANZHAF. The only officer that I have had any contact with is Gen. Hines.

The CHAIRMAN. Gen. Hines?

Mr. BANZHAF. Gen. Hines and the marine superintendent, Mr. Grimer.

The CHAIRMAN. Do you know whether Gen. Hines was formerly of the Army Transport Service?

Mr. BANZHAF. I have been told so.

The CHAIRMAN. You stated that the Government had been asked to advance some money on reconditioning this ship, \$400,000?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. And as a result of that you were instructed to make an audit of the matter?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. Is the reconditioning work in progress?

Mr. BANZHAF. It has been finished.

The CHAIRMAN. It has been finished?

Mr. BANZHAF. I understand the ship has made several trips.

The CHAIRMAN. The ship has made several trips?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. By whom was the work done?

Mr. BANZHAF. By the Morgan Engineering Co., Jersey City.

The CHAIRMAN. And what did their bill amount to?

Mr. BANZHAF. \$1,500,000, roughly; that is—

The CHAIRMAN. \$1,500,000?

Mr. BANZHAF. The exact amount, before adjustment was made, was \$1,465,000.

The CHAIRMAN. Did you make an audit?

Mr. BANZHAF. I have a man over there by the name of Soast, one of the traveling auditors.

The CHAIRMAN. One of the traveling auditors?

Mr. BANZHAF. Yes, who has charge of a crew of five men; with the addition of two men to be placed on a subcontract, there are eight men, or will be eight men on the job altogether when the two additional are placed there.

The CHAIRMAN. Is that bill, or has that account been settled with the Morgan Engineering Co.?

Mr. BANZHAF. No, sir.

The CHAIRMAN. They have reduced their claim?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. To what figure?

Mr. BANZHAF. It was reduced by approximately \$337,000.

The CHAIRMAN. How did that reduction come about or come to be made?

Mr. BANZHAF. When I received my preliminary instructions, my first instructions to do the matter, he said that the work, approximately, was \$1,500,000. There was considerable controversy over the records; they did not care apparently, fought submitting what I considered and what I demanded before I would proceed with the audit, so that I might approve the payment of \$582,000 by the Government.

The CHAIRMAN. Was the Government to pay this reconditioning expense?

Mr. BANZHAF. Simply advanced it for the account of the Baltic Steamship Co.

The CHAIRMAN. Well, now, did the board take any action upon that matter, the Shipping Board?

Mr. BANZHAF. Yes.

The CHAIRMAN. Pass a resolution?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. Have you a copy of it?

Mr. BANZHAF. I think I have a copy here.

The CHAIRMAN. Is it in this file here?

Mr. BANZHAF. I could not say. I think it is there.

The CHAIRMAN. See if you can find it. You haven't it in your pocket, have you?

Mr. BANZHAF. No, sir. [Examining file.]

The CHAIRMAN. Can you tell me whether this reduction of \$337,000 was voluntarily made, a voluntary reduction on their part, or was it the result of the examination you made and items which you did approve?

Mr. BANZHAF. When I had a preliminary conference with Mr. Lacombe, whom I believe is secretary and treasurer of the Morgan Engineering Co., he mentioned the fact that he had allowed a reduction; but he said that does not concern you, you are simply to satisfy yourself that the Government can pay \$582,000.

The CHAIRMAN. Well, then, why did he make the reduction?

Mr. BANZHAF. I first learned of the reduction, what the exact amount of the reduction was, through Gen. Hines, who mentioned it in the course of an interview which I had for the purpose of securing the proper records. At first, and at that preliminary meeting, I did not know that the amount to be verified was anything but \$1,500,000. The letter which I have here will give that.

The CHAIRMAN. Is that the resolution?

Mr. BANZHAF. That is the letter of instruction.

The CHAIRMAN. Does that give the amount?

Mr. BANZHAF. It just says "Where the total bills covering reconditioning amounted to approximately \$1,500,000."

The CHAIRMAN. That is more than the selling price, isn't it?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. Now, see if you can find that resolution.

Mr. BANZHAF. I have not got it with me.

The CHAIRMAN. If you don't find the resolution now, let me get it clear, if I can. You understood that this boat was sold to the Baltic Steamship Co. for approximately \$985,000 or \$1,000,000, or in that neighborhood?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. On the charter purchase plan?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. And that she was to be reconditioned?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. By the Baltic Steamship Co.?

Mr. BANZHAF. Yes.

The CHAIRMAN. And the Shipping Board was to advance the money up to how much?

Mr. BANZHAF. Up to \$582,000.

The CHAIRMAN. Up to \$582,000 for doing that work?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. Then the bill of the Morgan Engineering Co. for reconditioning amounted to approximately \$1,500,000?

Mr. BANZHAF. Yes, sir; that is what I understood first.

The CHAIRMAN. That is what you understood?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. Then you went to audit the account for the reconditioning work, and the bill was reduced by \$337,000?

Mr. BANZHAF. Yes, sir; after I had started in.

The CHAIRMAN. After you had started in?

Mr. BANZHAF. After I started, I endeavored to get the records; there was a great deal of controversy over giving me the records.

The CHAIRMAN. And that reduction, at least, was made?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. That bill left the bill for reconditioning larger than the purchase price of the boat?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. Now, then, was the Baltic Steamship Co. to reimburse the Shipping Board for the reconditioning expenses, also?

Mr. BANZHAF. That is a thing I have been trying to determine. I have not been able to get the agreement under which they are buying the boat.

The CHAIRMAN. Who have you tried to get that from?

Mr. BANZHAF. From Mr. McLoughlin, of the legal department, 45 Broadway.

The CHAIRMAN. Have you tried to get it from the Baltic Steamship Co.?

Mr. BANZHAF. No, sir; I understand there is a new agreement being executed; that the original agreement has been superseded by another agreement.

The CHAIRMAN. Now, have you called for the vouchers and pay rolls of the Morgan Engineering Co.?

Mr. BANZHAF. When I started to lay out the work of the audit I had a conference in an endeavor to find out just what records they had, how they were kept, and who had them, etc. The first thing, of course, I took up was the direct labor, and I asked for the time cards. They claimed that they had destroyed all time cards.

The CHAIRMAN. You know who comprise the Morgan Engineering Co.?

Mr. BANZHAF. Col. McCabe is, I believe, general superintendent, practically the general manager, I understand. Mr. Lcomb is, I believe, secretary and treasurer.

The CHAIRMAN. Do you know whether Col. McCabe is also interested in the Baltic Steamship Co.?

Mr. BANZHAF. I don't know; no, sir.

The CHAIRMAN. Do you know whether he was formerly with the Army Transport Service?

Mr. BANZHAF. Well, I have been told so.

The CHAIRMAN. You say that you could not find any time cards to check up the direct labor?

Mr. BANZHAF. They claimed that they have been destroyed. As a matter of fact, we did find a few; at least, they were given to us. They claimed that they did not have but a very few; that they didn't have enough to be worth while. A young man named Jennings told me when I first went there he believed he could produce all the time cards. After I had had a talk with Col. McCabe and Mr. Lcomb he reversed himself.

The CHAIRMAN. In the absence of that contract of sale on the charter purchase plan, you don't know whether the Fleet Corporation

is to be reimbursed for this \$585,000 that they are advancing for reconditioning, do you?

Mr. BANZHAF. No, sir; I do not.

The CHAIRMAN. What is your judgment about that, that they are to be?

Mr. BANZHAF. My judgment is that the resolution reads that they will advance to the Morgan Engineering Co. so much money for the account of the Baltic Steamship Co.; that is my understanding of the way the resolution of the board reads.

The CHAIRMAN. You have a copy of that somewhere, haven't you?

Mr. BANZHAF. Yes; I have.

The CHAIRMAN. Now, have you any other instances of where former German ships are being reconditioned?

Mr. BANZHAF. The Morgan Engineering Co. has at present the steamer *Mercury*, formerly the steamship *Barbarossa*.

The CHAIRMAN. *Barbarossa*?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. And that is another Baltic Steamship Co. ship?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. What about it?

Mr. BANZHAF. I was told by Col. McCabe that they have stopped work because they did not see any money coming forth. I have been told that the work itself had proceeded to the point of \$175,000 expenditures.

The CHAIRMAN. Did you make an audit of that?

Mr. BANZHAF. No, sir.

The CHAIRMAN. Has that been referred to you?

Mr. BANZHAF. No, sir.

The CHAIRMAN. Now, do you know anything about any other steamship being repaired in the yard of the Morgan Engineering Co.?

Mr. BANZHAF. Why, I have had occasion to go over a number of repair bills in the last few weeks, in connection with a general survey of the situation—the repair situation—which I am making as a traveling auditor. I have gone around and questioned the different checkers, field auditors at different plants, and I have examined quite a number of bills, in order to see just what the character of the bills that are being turned in is.

The CHAIRMAN. What have you found?

Mr. BANZHAF. I have found that up to about six or seven months ago bills were being rendered by various repair companies, repair yards, in the port of New York showing some what I would call gross irregularities.

The CHAIRMAN. Cite some.

Mr. BANZHAF. Well, we have such irregularities as charging for hundreds of hours of time which are not substantiated by their records. They charge a large number of hours of time of one class of labor where, as a matter of fact, they furnished labor of an entirely different classification, a lower classification. They charge material at higher rates or in amounts in excess of what could be used on a job. They charge machine-tool time in excess of what could be used.

The CHAIRMAN. Is not this work being supervised by somebody from the Shipping Board?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. Whom?

Mr. BANZHAF. The repair-cost audit department; that is, the auditing part of it.

The CHAIRMAN. What are they doing to protect themselves?

• Mr. BANZHAF. Well, that is what I am referring to now, is the fact that the repair cost of a department in making audits of various vessels in the repair yards have found these irregularities, and they appear in their bills.

The CHAIRMAN. Oh, I see.

Mr. BANZHAF. You see what I mean; they are auditing their bills, and I have found in the field auditors' reports these irregularities reported—in other words, these bill show these irregularities upon them, and he certified to them—that is, as to what he has found. As I say, this was all about six or seven months ago. Since that time they have been working it on a different plan. They fight the thing out with the field auditor first, and then after the field auditor has passed upon everything which they say should be charged they render the bill from the adjusted work sheets—the adjusted cost sheet.

The CHAIRMAN. Now, does the Shipping Board have anybody there to supervise the work, or inspector to pass upon the work, while the work is being done?

Mr. BANZHAF. Under the present operating agreement the sole inspection, from a mechanical standpoint, is in the hands of the operating companies' port engineers. I have inquired into this matter, and I understand that this is the fact, and I have been told that as a rule the port engineer does not visit the ship over twice: he visits the ship, perhaps, when the requisition is issued, and again to see that the work has been completed or, at least is satisfactory, himself.

The CHAIRMAN. Well, does the United States Bureau of Survey have anything to do with this matter?

Mr. BANZHAF. Yes, sir; the United States Bureau of Survey, according to their contract, agree to maintain a record by which the Shipping Board's repair bills on ships operating under the M. O. 3 agreement may be checked, and provide accurate survey to be made by the United States Bureau of Survey inspectors, or the United States Bureau of Survey.

The CHAIRMAN. They are acting as agents for the Shipping Board?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. Have you had any experience with the Liberty Iron & Wire Co. at Norfolk, Va.?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. What experience?

Mr. BANZHAF. I found that they had received steel in excess of what they paid for.

The CHAIRMAN. What?

Mr. BANZHAF. I found that they had received steel, had purchased steel, and had paid less than they should have paid.

The CHAIRMAN. What was done about that?

Mr. BANZHAF. The matter was reported in Washington; it was the subject of a report which I made to the chief traveling auditor, Mr. Fielding, I believe, and the matter was also reported to the Bureau of Investigation.

The CHAIRMAN. Were they made to pay what they should pay?

Mr. BANZHAF. I think it is my impression that this matter was held in suspense.

The CHAIRMAN. How did it happen? Was there anything crooked about it?

Mr. BANZHAF. At that time I did not think so. At the present time I do.

The CHAIRMAN. What did you think was wrong about it or crooked?

Mr. BANZHAF. I procured the sheets of the engineer—I made an audit of it first, I think, for the purpose of accounting for the materials, supplies, etc., bought for the torpedo bulkhead and the shops, and a great amount of the material was left over at Norfolk, Va. It was in the custody originally of James Stewart & Co.; afterwards it was in the custody of J. T. Edwards, who acted as salesman for the salvaged material, E. B. Wood, and L. Sherwood, and the brother-in-law of Wood, whose name I can not at this moment remember.

I found, when I obtained the sheets of the engineer, the labor account, showing the work, without telling him—I told him that I wanted to just look at them, and I found that these sheets, these tally sheets, showed that he had received considerable more than he had paid for; that is, the Liberty Iron & Wire Co. had paid for. Investigator Haynes and myself took the engineer over to my hotel. We obtained a statement from him acknowledging that he knew that they had received more, stating that he had reported the matter to the officials of the Liberty Iron & Wire Co. We took the matter up with those officials. They claimed that they had made a mistake and offered to make restitution. At that time I did not know very much about the Liberty Iron & Wire Co., and I felt that there might be some ground for their contention.

The CHAIRMAN. But you don't think so now?

Mr. BANZHAF. No, sir.

The CHAIRMAN. You wrote a letter on July 6 to the general comptroller, on the effects of repair order of May 28, 1920, and M. O. 3, agreement upon ship repair costs in South Atlantic district, didn't you?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. In which you stated: "The United States Shipping Board Emergency Fleet Corporation, from the commencement of ship repair work to date, has lost a great amount of money in this district from three prime causes: A. Deliberate authorization of tremendous amount of unnecessary and irregular work."

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. You found that, did you?

Mr. BANZHAF. I have convinced myself of it by my conversation and statements I received from checkers and from information I received from the Department of Investigation and Information which they have been able to secure by examining the invoices and other records in the office of the port of Norfolk and also from some personal investigation I have made myself, too.

The CHAIRMAN. "B. Lack of effective, conscientious inspection"?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. You found this lack?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. "C. Failure to check repair work which had progressed far beyond the limit of cost, and failure to limit work which had progressed far beyond the necessary time allowance"?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. You found instances of that?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. In this letter you said:

When an inspector can sit in a pilot house and compile a repair requisition for thousands of dollars of work on an engine which he never even sees, and this same procedure, under the proposed arrangement, is a matter susceptible to easy execution, by dishonest agents, it is not to be wondered that honest men in the United States Shipping Board Emergency Fleet Corporation are losing confidence.

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. You found an instance of where an inspector sat in a pilot house and compiled a repair requisition of thousands of dollars of work on an engine which he never saw?

Mr. BANZHAF. I proved by the summary of the launches used for inspectors—by summary of the launches which will show the amount of traveled time by inspectors, that out of possibly 17—or approximately 17 inspectors—the time of about two inspectors could actually have been passed going to and from ships and actually working on the ship, inspecting and making up requisition. A large part of the traveling time of the launches—or, I should say, a large part of that time is traveling time in the launches.

The CHAIRMAN. Yes; but how about this bill of repair, the requisition for thousands of dollars worth of work on an engine which he never even sees?

Mr. BANZHAF. I went over the steamship *Mahnett*, a wooden ship. Capt. Evans, of the *Mahnett*, who was skipper at that time, informed me at that time that Inspector Barker, of the inspection force of Norfolk, had made just such a requisition. I questioned several checkers. They informed me that the process of making up a requisition by the inspector usually consisted of the inspector going aboard the ship and taking his information from the engineer.

The CHAIRMAN. You also said in that paragraph, "When the same agents," that is, the man who compiles the requisition?

Mr. BANZHAF. I referred that case, I believe, to the operating agent.

The CHAIRMAN. "When the same agents instruct the captains of the ships that it is none of the captain's damn business how much things cost, and force the captain to approve extortionate invoices, over protest, it shows that some, if not most of these agents, have no conception of the sacred trust placed upon them when entrusted with public funds"?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. You know of an instance where an agent told the captain it was none of his business how much the things cost?

Mr. BANZHAF. Capt. Evans informed me that had been his experience with three of them—that is, that attitude. I won't say that they all used those words.

The CHAIRMAN. The captain of the *Mahnett*?

Mr. BANZHAF. Yes, sir. I confirmed that by the fact that there was gross expenditures for repairs and by the great amount of

money which was spent for supplies, particularly for subsistence. I made investigations, or a man associated with me made investigations, as to the cost per day per man. Survey showed that the cost per day per man on shipboard in the port of Norfolk was away in excess for the per day per man rates given by other companies—private companies and the Navy.

The CHAIRMAN. In excess of private companies and in excess of the Navy?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. You also stated "deliberate authorization of tremendous amounts of unnecessary and irregular work. It has been found that general repair charges in south Atlantic districts to date aggregate over \$7,000,000."

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. "Ten per cent of this amount, or \$700,000, graft, can easily be obtained by any man who has the privilege of assigning work of such an amount. And yet, for some unknown reason, this power, which for the entire organization is worth several millions of dollars, is given away without compensation. By proper control in other departments than the Construction and Repair departments and internal check there is no doubt much of this amount could be saved."

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. What have you found upon which to base that statement and that assurance?

Mr. BANZHAF. The fact that every statement I received indicated that—that the men that talked with me, the associates of mine who examined the ship chandlery concerns and other concerns doing business with the Shipping Board, all agreed that their experience had been that it was the usual thing to take graft or you didn't get work.

The CHAIRMAN. You stated in this letter: "The agent, according to testimony of one captain, tells the repair people flat out, if you want repair work, come across with the cash." Now, what agent or agents or whom do you mean?

Mr. BANZHAF. The operating agent.

The CHAIRMAN. Tell the repair yards that if they want the work they must come across with the cash?

Mr. BANZHAF. That is what Capt. Evans told me.

The CHAIRMAN. Capt. Evans told you that?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. That he had been told that?

Mr. BANZHAF. I will have to qualify that; I believe that he possibly overheard it; I don't know just what he said.

The CHAIRMAN. Overheard it?

Mr. BANZHAF. That was what he reported to me, anyhow.

The CHAIRMAN. "Lack of effective and conscientious inspection. The function in seeing that work is expedited and properly done is intrusted to the agents. It is now possible for these men to appoint any ignorant, incompetent man as an inspector. He may inspect work once a week or once a month, any irregularity may be practiced. Neither he nor his employer, the agent, will suffer financially if work is worthless, as it often has been. It will likely be done over, as heretofore, and the Fleet Corporation will pay the repair bill

without any protest, also as heretofore." You found instances of that?

Mr. BANZHOF. I have had that reported to me several times. At the present time I have been unable to find time to make these comparisons.

The CHAIRMAN. Who reported it to you, that that was the situation?

Mr. BANZHAF. The inspectors of the investigation department.

The CHAIRMAN. Bureau of Investigation?

Mr. BANZHAF. And also the checkers of the port of Norfolk, the time inspectors.

The CHAIRMAN. "On contract work there is evidence of collusion with repair yards, by which building sometimes is a mere pretense and greatly excessive bids accepted. On time and material work rotten and long running work has been consistently allowed to pass." Have you found that, or has that been reported to you by others?

Mr. BANZHAF. It has both been reported, and I think I have convinced myself of the fact by some independent investigations I made myself. I found that yards which, by the summary of the report, work issued at Norfolk, who are reported and who could be moved to the making up of irregular bills, were getting the large amount of their work; they were getting work far in excess of the amount justified by their equipment and the character of the work which they did.

I investigated one of the oldest yards in the port of Norfolk, called the Elizabeth Iron Works. This gentleman said that he could not understand why they could not receive work; they did private work, I believe, on stationary engines and they were the oldest repair company or repair yard in Norfolk. They claimed they made several bids, and I found for a period ending, approximately, May 31, that the Elizabeth Iron Works had received but about \$15,000 worth of work, whereas other yards who had been in existence but a year or two, had received \$250,000 or \$300,000 worth.

The CHAIRMAN. Did they have superior equipment, these newer yards?

Mr. BANZHAF. No, sir; most of them started with a small amount of machinery. I myself have gone around and looked at some of the shops, and they appeared to me not to be well equipped.

The CHAIRMAN. Now, you reported this on July 6, 1920?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. By this letter?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. To the general comptroller?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. Do you know whether any steps have been taken to eliminate these irregularities or improper practices?

Mr. BANZHAF. In the port of Norfolk, I would not state they have. I came away from Norfolk before the rest of the auditors left there. Since I have been in New York I understand that one of the things which I have recommended, and which I have tried to have passed, namely, the removal from the approved list of any yard which is known to render irregular invoices, has been done, and I understand that the North River Ship & Engine Co. has been removed from the approved list, and I think the Ransom or Ramburg,

I don't know which it is, yard—I can not remember just exactly what the name of the yard is—has been also.

The CHAIRMAN. How about other things that you pointed out there—have they been remedied?

Mr. BANZHAF. I could not tell from what I have seen in the port of New York.

The CHAIRMAN. You could not tell as to that?

Mr. BANZHAF. No, sir; excepting in a general way, I think some of the things are still going on; I think that from the character of persons still continuing, and their known dishonesty, and also from the general lack of inspection that is taking place, that the same things that have happened in the past are going on at present. I can't see how they can help but go on just the same.

The CHAIRMAN. Now, can you point out any inconsistencies in that file there that bear on any of these things that you have spoken of in your letter to the general comptroller?

Mr. BANZHAF. I have a letter, or a copy of a letter, from B. V. Woodward, manager of the repair department.

The CHAIRMAN. Who is that?

Mr. BANZHAF. Mr. B. V. Woodward, manager of the repair department, New York, and Mr. Klipgard, referring to the steamship *Cajatet* which—shall I read the letter?

The CHAIRMAN. If it is necessary.

Mr. BANZHAF. The point involved in this case is the fact that the repairs on both of these vessels was found to be much in excess of the proper amount; that is, the proper amount certified to by the—estimated by the repair department or the C and R department and by the United States Bureau of Survey. Nevertheless, these bills were ordered paid over the protest.

The letter says:

After going into all the details of the matter of the excessive cost for repairs made to the S. S. *Cajatet* and the S. S. *Etan*, by the North River Ship & Engine Co., it appears to me that we have no grounds upon which to base the claim for reduction of this bill, for the reason that the repair cost audit department checked all time and material. Also this work was dragged out and added to from day to day, due purely and solely to the utter incompetency to the repair department inspectors on the job. Personally I feel that the job should have been done for a great deal less than it has cost the Shipping Board, provided we have had the proper people on the job, both in the repair cost audit department and in our own department. However, it is a proven fact that most any repair concern in the port of New York working on a time and material basis will drag the work out as long as our inspectors permit them to, and will perform any work suggested by the inspector or the chief engineer of the vessel. And in all probability a great many charges that are placed against the supplementary requisition awarded from this office results from work being performed on other machinery for which no authority has ever been given. In view of the above, you will authorize the payment in full for work performed on the above two ships.

The CHAIRMAN. What is the date of that letter?

Mr. BANZHAF. June 30, 1920.

The CHAIRMAN. How much was involved in that, do you know?

Mr. BANZHAF. The S. S. *Cajatet*, the invoiced amount was \$24,642.25; the total adjustments were \$726.75. The audited amount was \$23,915.50. The report of the Bureau of Survey, June 28, 1920, that they estimate the repairs as \$8,065 against the \$23,000 charged. The S. S. *Etan* bill, June 28, 1920, the amount charged—that is, audited

amount—\$41,950.25; the Bureau of Survey estimated \$23,200. One of the inspectors of the C. and R. department wrote a letter stating that the work was \$20,000 in excess of what it should be on this latter vessel, but the bill was paid over protest. The next thing is a—do you care to have me go further?

The CHAIRMAN. What is the next case you have there?

Mr. BANZHAF. I have a quotation from John T. Edwards, of the Cleary & Edwards Boiler Scaling and Cleaning Co., of Norfolk, Va., dated January 7, 1920. It is a proposal for painting work addressed to Mr. Chrystie, chief inspector South Atlantic district. It is for painting work on the hulls of the ships, and as far as the specifications in the proposal, it says what they will do. They state what the time of the work will be, that they will complete the work in seven calendar days. The price, which is inserted by myself, and which agrees with the actual payment made, is \$5,643.13.

The reason I picked this thing up was, in the first place, it is, to my mind, a very clear indication of the spirit to make work. This work of painting above the water line is work which from the time, almost from the time vessels existed, has been a part of the work of the crew. Nevertheless, Mr. Edwards was able to secure this work on a lump-sum basis, not on a competitive bid, the assumption in such cases being that it is impossible to submit the work for competitive bids. I looked up the departure records of the records of the vessel's itinerary. I found that that vessel did not sail until January 25 for Jacksonville.

The CHAIRMAN. How many days later?

Mr. BANZHAF. Making 18 days, so, my opinion that I am offering, if I may do so, is that it was not necessary to put that work on a lump-sum basis. It was not necessary, in the first place, to give that work out to workmen, for the reason that the crew is paid to do such work. A vessel always has at least a skeleton crew. In this case they had apparently a full crew; at least, I suppose so, but the crew was paid to do that work. They have very little else to do if they do not do such work as that, in fact, they would not have anything to do but ride around on the ships.

I find another example, not of the same kind of work but perhaps an illustration of several steamers. I found that the ashes were not being blown overboard. The steamships, most of them, I believe, are equipped with ash ejectors, which blow them as far as across the street. One of the inspectors of the department of investigation was out on a ship while this kind and character of work was going on; I don't remember the ship now, but while looking and searching in the files I could find the same kind of work being given out by Inspector Chrystie, per Lester George. I have here a bill for the *Galesburg* for similar kind of work.

The CHAIRMAN. What is the fact; is it possible that the ash ejectors were out of order?

Mr. BANZHAF. It happened in this case—in the first place, they should blow them out at sea; they should not wait until they get into port. The case which I refer to, where the agent of the department of investigation was on the boat, we talked with the engineer, and I believe asked what was the matter with his ash ejector. So to show me that it was all right he turned the thing on and it ejected ashes against the building or dock, a considerable distance away:

but nevertheless at that time on that boat they had, I believe—that is the same case—men were working in this very thing, workmen in a crew, as I remember now, in the engine room, a crew of workmen hired from outside; they were removing ashes in this way. In one case he told me that he had 12 men hoisting ashes in half-bushel baskets out through a manhole about 20 inches across.

I have here bills from the Mather Boiler Cleaning Co. showing similar work. I have here a bill from the Berkley Machine Works.

The CHAIRMAN. You have several others along the same line, haven't you?

Mr. BANZHAF. I have before me a memorandum from a bill of the Berkley Machine Works on the steamer *West Arrow* for cleaning and cementing.

The CHAIRMAN. Before you go into that, do you know whether or not private operators running ships of their own or ships which they have chartered, which are not Shipping Board's at all—whether they are not up against this same sort of practices and overcharges and lack of inspection and improper work?

Mr. BANZHAF. Yes, sir; that is my understanding; I understand that the Shipping Board has demoralized the rest of the shipping business.

The CHAIRMAN. How?

Mr. BANZHAF. By its allowing these loose practices.

The CHAIRMAN. Have you any questions, Mr. Kelley?

Mr. KELLEY. Not to-night, I guess; it is pretty late, isn't it, Mr. Chairman?

The CHAIRMAN. Not so very late. How many more instances have you there?

Mr. BANZHAF. I think about the grossest instance which I would call the grossest irregularity, was in the case of the steamship *Mahnete*, which was for some work supposed to have been done by the Liberty Iron & Wire Co., and amounting approximately to \$5,000. I went in and over the ship with the captain in charge at that time, Capt. Evans, and I could not find, from my inspection, that any of that work had been performed.

The CHAIRMAN. Had they been paid?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. And didn't the captain know where the work was?

Mr. BANZHAF. The captain in charge at that time, Capt. Evans, was not the captain on the boat at the time that this work was supposed to be performed.

The CHAIRMAN. Didn't the bills show where the work was done?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. Did you go there and try to find out?

Mr. BANZHAF. That matter was, I believe, taken up with the department of investigation. At that time, it was not considered desirable, I believe, to bring the matter up because that was shortly before I left Norfolk, and I left it to them to determine. Capt. Evans was placed in contact with the department of investigation.

The CHAIRMAN. There is an instance of where some \$5,000 had been expended for work that you could not find any evidence that it had ever been done?

Mr. BANZHAF. I could not find any. The captain said that he could not find it. The men on the boat swore to me that the men charged at the dates given in the bill had not been on the boat. I also found, for instance, later, a table job for a chart table, where they charged \$340, and the auditor went over it and gave them \$3 more for such a table perhaps as that [indicating one in the room]. The field auditor who did that, Moseley by name, was found by the department of investigation to have received \$5 a night for passing the bills on another concern. I found that they charged \$200 or \$300 for launch hire. Inspector Dolby said that the launch—that is, that the ship had been tied to the wharf during the period when the work was supposed to have been going on and the ship's papers agreed and showed the same thing.

The other work which I, from my limited experience, my limited mechanical experience, I could not find had been done.

Mr. KELLEY. Generally, is all of that pile of papers that kind of material?

Mr. BANZHAF. Some of it is on the same line; there are different papers on different matters of this kind; some are from the Department of Investigation and, in fact, the Department of Investigation have most of this stuff.

Mr. KELLEY. How many pages of that stuff have you got there, in one hand or the other?

Mr. BANZHAF. Well, about 60 or 70, some of it pretty bad.

Mr. KELLEY. In other words, like that which you have detailed?

Mr. BANZHAF. Well, it is all kinds; I would not say that.

Mr. KELLEY. I was going to say, without breaking in on this line, if you want to go ahead on this, Mr. Chairman, I was going to ask him who instructed you to audit the *New Rochelle*?

Mr. BANZHAF. I received a letter from Washington, from Mr. McKean, deputy general comptroller.

Mr. KELLEY. The purpose of the audit was to determine whether the Government's equity was protected or not?

Mr. BANZHAF. He did not state why in the letter. In the letter it stated, as I remember: Whether the Government would be justified in paying \$582,000. There the question comes up just what is the Government's position in the case, the position that it would be placed in if the best vessel should be returned. There is \$400,000 advanced by the Baltic Steamship Co.; does it become a loss to the Baltic Steamship Co. or do they lose it just the same as a man might if he made a leasehold property. I endeavored to secure the purchase contract to determine that, and also to give me a basis for working.

Another thing there, you might say the most important thing in the record was missing; that is, the working specifications. They claimed that they made their repairs this way, that they let those men go on board that ship, they claimed something like as many as 1,800 men go on there at once, at that work, whereas the largest amount I could find from any record was 1,100 men at any one time, or a little over, and they claimed that they let those men go aboard the ship without specifications and that the work was laid out by the foreman or the superintendent, Col. McCabe, in part; that the original specifications, which I believe were made generally by the Shipping Board, by the Army Transport Service, when the

boat was turned back to the Shipping Board; they claimed that those specifications were entirely too expensive; therefore, they did not follow them. Mr. Griner, marine superintendent of the *Baltic*, and Mr. Werry, I think, and Col. McCabe, from their statements, appeared all to have had a hand in the laying out of the work.

Mr. KELLEY. Well, it appears that the bills rendered for the work, according to the changed specifications, were much greater than they would have been if carried out there according to the Shipping Board specifications.

Mr. BANZHAF. I was told that the Shipping Board specifications, which presumably covered what the vessel needed to pass a certain classification, were entirely too expensive and too voluminous, one or the other; that is my understanding, and, therefore, they did not follow them.

Mr. KELLEY. But the bills were larger than they would have been if they had followed the other. Is that the idea?

Mr. BANZHAF. I don't think so. At least, not from what they said.

Mr. KELLEY. I judge from what you said that the question now was whether, in view of the extensive refinishing done by this concern, whether or not the Government's equity would be protected to the extent of five hundred thousand and some odd dollars that they were going to advance for a purpose.

Mr. BANZHAF. That is my understanding. I was most interested in seeing that the Government advance of \$400,000, and the making of \$182,000 more, was protected; that is, the \$400,000 authorized by the board, which I presume has been paid, plus the \$182,000 to be paid, provided the Government is satisfied, from our examination, it is justified and that the Government will be protected.

Mr. KELLEY. It is not your understanding that the Government was to advance the money for the repairs for refinishing?

Mr. BANZHAF. No, sir. It is my understanding that the *Baltic* started this work. They paid \$400,000, and owing to the great amount of money that they had been expending probably for the purpose of financing themselves on a little better and more satisfactory plan than they might have done if they had gone to a private banker, they put the matter before the board.

I would not want my statement to indicate that the *Baltic Steamship Co.* went before the board simply for the reason that they were hard up; I would not want it to be stated that way. I believe that they might have gone before the board solely for the reason that they believed the board was interested with them and that they might make better arrangements financially, as far as securing the money is concerned, than they could if they went to a private banker; of course, that is simply my opinion.

Mr. KELLEY. Do you know, from your investigation, whether or not the Government has been in the habit of advancing money for refinishing ships that they have resold to other companies?

Mr. BANZHAF. This is the first case I have had.

Mr. KELLEY. You don't know any other cases?

Mr. BANZHAF. This is the first case I have dealt with in the reconditioning of ships.

Mr. KELLEY. And possibly it may have been that there may have been others?

Mr. BANZHAF. Yes, sir.

Mr. KELLEY. Why didn't you ask them in Washington for a copy of the contract, so you would know exactly what you are expected to do?

Mr. BANZHAF. I believe I went to Mr. Bidwell, in Washington, but I didn't secure it. I believe I told Mr. McKean on the phone. It is my understanding that this thing is in process of adjustment, and the thing has been thrashed out, and I understand that this contract has just been finished or agreed upon or will be finished. I understand that when the contract is ready I am to receive a copy. I have had to go ahead for the reason that these people are holding off on their money; they want to get our examination through before they do that. I would like to state also that this examination I do not consider, stating whether I approve of the Morgan Engineering Co.'s work, and that they are entitled to the \$582,000. I do not consider that the method used of taking off the time off of the time reports, which are simply off the workmen's time cards, and which are signed by the Baltic Steamship Co., as far as the ship labor goes, but which are not signed by anybody, as far as the shop labor goes, is not satisfactory to me. I am merely making this examination, as I verbally reported to Mr. McKean, in Washington, for the purpose of seeing just what I could find and how they conducted their business there, and letting them down in Washington interpret it, and give their approval for the bill as they saw fit. I have stated further that the records do not include what I consider the proper material for approving a bill.

Mr. KELLEY. Well, you don't know who is going to pay this bill, do you?

Mr. BANZHAF. If the examination satisfies the board in Washington, the Government, according to the resolution, is to pay \$182,000.

Mr. KELLEY. The whole amount is something like \$1,100,000?

Mr. BANZHAF. Yes; but you could not find out who would eventually have to pay it unless you have the contract, which I have not as yet received, but which I am to receive.

Mr. KELLEY. Now, then, are you perfectly familiar with the lien laws as affecting ships? Would this engineering company have a lien on the ship if the full amount of their claim for \$1,100,000 were not paid?

Mr. BANZHAF. It would depend upon, in the first place, the contract itself. If the contract did not specify, the admiralty law would govern, I assume? I am not an admiralty lawyer.

Mr. KELLEY. And there might be a claim there of a lien against the ship, and the Government might be forced to pay this bill in order to protect its equity in the ship. Is that your idea?

Mr. BANZHAF. I think that is possible.

Mr. KELLEY. But the whole thing is rather cloudy, because you don't know what the Government has agreed to do.

Mr. BANZHAF. If you will pardon me, the standard form of charter—that is, charter purchase on prime charter—with an option of purchase, specifies that the charterer shall not place any lien upon the ship; in other words, it will protect the owner.

Mr. KELLEY. In this case the owner agreed that certain repairs should be made, didn't he?

Mr. BANZHAF. The Government must have done so.

Mr. KELLEY. It must have.

Mr. BANZHAF. But that work was done without any Government inspectors being there to check it off and without official United States Shipping Board inspectors' approval. That work was not followed by time and material checkers. It was not inspected by C. and R. inspectors, so far as I know, though they might have done so unofficially; but we did not keep the records; we were not allowed to do so, I understand.

Mr. KELLEY. What your investigation shows is that the practices resorted to by this engineering company in repairing the ship are such that it is pretty difficult to tell?

Mr. BANZHAF. Yes, sir.

Mr. KELLEY. But the amount of the bill should be?

Mr. BANZHAF. Yes, sir.

Mr. KELLEY. That they should be thoroughly investigated and a conclusion reached before the Government does anything more?

Mr. BANZHAF. I made the recommendation, and I stated that I did not consider, as I said before, that the records were sufficient to approve the bills, if I go by the records and find them to be all right. The records which they said were available I do not consider satisfactory evidence that the bill was proper—at least for the amount stated—and made the recommendation that the settlement be made upon the basis of an engineer's appraisal or conference, rather, than on a basis of an audit by a traveling auditor.

Mr. KELLEY. That is to say, that a board of engineers go over the ship and appraise the work that has been done and determine what it is worth for doing it, if they could?

Mr. BANZHAF. Yes; if they could.

The CHAIRMAN. The committee will adjourn now until 9.30 to-morrow morning.

(Thereupon, at 4.50 o'clock p. m., the committee adjourned to meet to-morrow, Tuesday, November 30, 1920, at 9.30 a. m.)

SELECT COMMITTEE ON U. S. SHIPPING BOARD OPERATIONS,
HOUSE OF REPRESENTATIVES,
New York, November 30, 1920.

The committee met in Exhibit Room No. 6, Pennsylvania Hotel, at 9.30 o'clock a. m., Hon. Joseph Walsh (chairman) presiding.

Present also: Hon. Patrick H. Kelley, member of committee.

TESTIMONY OF MR. CHARLES E. BANZHAF—Resumed.

The CHAIRMAN. Have you found the copy of that resolution for which you were to look?

Mr. BANZHAF. No, sir; I could not find that.

The CHAIRMAN. What resolution was it?

Mr. BANZHAF. A resolution of the Shipping Board.

The CHAIRMAN. Do you remember when it was passed?

Mr. BANZHAF. No, sir; I do not know the exact date. I just read it over hurriedly.

The CHAIRMAN. Where did you get it?

Mr. BANZHAF. I received it from the general office.

The CHAIRMAN. To whom have you reported all these matters that you have been testifying to?

Mr. BANZHAF. The work in Norfolk was originally in charge of myself, and later two other men were sent down.

The CHAIRMAN. No; to whom have you reported all these matters that you have been testifying to?

Mr. BANZHAF. I reported the general condition to the general office, Alonzo Tweedale, comptroller.

The CHAIRMAN. The general condition; but these matters that you have been testifying about, these specific matters that you have taken up—the Baltic Steamship Co., and the captain of the *Mahnet*, and these other matters—to whom have you reported those individual matters as you found them?

Mr. BANZHAF. The matter of the *Mahnet* was reported to the department of investigation.

The CHAIRMAN. Well, to whom in the department of investigation?

Mr. BANZHAF. I took into conference Mr. Maxwell, Mr. Mulhall, with Capt. Evans.

The CHAIRMAN. Well, is that what you call reporting it to them?

Mr. BANZHAF. Well, I was not an investigator, you know. I turned Capt. Evans over to the department of investigation.

The CHAIRMAN. So you did not make any particular report of that to anybody?

Mr. BANZHAF. It was my understanding that he gave them a statement.

The CHAIRMAN. No, no. You yourself did not make any report of that to anybody, you yourself, did you?

Mr. BANZHAF. I talked about it; I have told everything——

The CHAIRMAN. Yes; you talked with the committee about it; but have you filed any written report with anybody about that matter?

Mr. BANZHAF. No; I have not.

The CHAIRMAN. You called the department investigators into consultation?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. And had Capt. Evans there, and then you left it up to them?

Mr. BANZHAF. I considered the matter, and the way it was to be handled was a matter rather for an investigator than for an auditor.

The CHAIRMAN. That is what I am trying to get at. These other matters—have you filed any written reports, outside of the *Baltic* and the *Mercury* case—the letter which I read here yesterday?

Mr. BANZHAF. There has been no report on the *Baltic* or the *Mercury*, for the reason that the work is in progress on the *Mercury*. I only heard that the other day, and that boat, the *Mercury*, is not a Shipping Board boat, as far as the repairs go. If the Baltic Steamship Co. had plenty of money, could send out great sums of money on reconditioning, I do not think that the board would ever come into the matter at all.

The CHAIRMAN. Some of these other matters here in the file you testified to yesterday. Did you make personal investigation of all these matters?

Mr. BANZHAF. No, sir; quite a large number of them were matters which came to my attention from the Department of Investigation investigators, and I considered that they were amply competent to

take care of the criminal side or the irregular side of it, and I looked at it from the standpoint of an auditor. I accumulated a considerable amount of information in regard to the points on which these matters were affecting the Shipping Board, from the point of incompetence and expense, to see if possible the means which should be taken in order to remedy them.

The CHAIRMAN. These files and documents that you have been referring to are Shipping Board files, are they?

Mr. BANZHAF. They are copies of letters and things which I have saved until I could utilize them on some such occasion as this, as a matter of fact.

The CHAIRMAN. The originals are in the Shipping Board—the original documents; that is what I mean.

Mr. BANZHAF. Yes, sir. Most of them are records of the department of investigation.

The CHAIRMAN. And some of them have been pending quite a while?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. Did you get any reply to your letter of July 6, 1920, to the general comptroller?

Mr. BANZHAF. No, sir.

The CHAIRMAN. Did you get an acknowledgment of it?

Mr. BANZHAF. I went to Washington with Mr. Cooper and we had a conference in the office of Mr. Tweedale, general comptroller—afterwards in the office of Mr. Meehan and Mr. Richardson—and these matters were talked over.

The CHAIRMAN. That is not answering my question. I am asking you if you got a reply, an acknowledgment, to that letter?

Mr. BANZHAF. Not an official acknowledgement; no, sir.

The CHAIRMAN. Were you called down to Washington as a result of having sent that letter? Did they request you to come on to Washington after you had mailed it?

Mr. BANZHAF. I think we went voluntarily, in order to strengthen the letter and emphasize it, if possible.

The CHAIRMAN. Did you discuss it with Mr. Tweedale?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. You discussed the various matters set up in that letter?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. Do you know whether any of these matters which you set forth and to which you objected, or concerning which you made criticisms, have been corrected or remedied since July 6, 1920?

Mr. BANZHAF. As far as the port of Norfolk goes, I have no immediate knowledge. As far as the port of New York goes, I think that some steps have been taken which should be very effective; that is, in the two instances that I cited, by suspending repair companies who turned in irregular bills, the most effective step that could be taken outside of prosecution.

The CHAIRMAN. Yes, sir. Just what methods do you follow in going over the books, for instance, of a repair yard? How do you ascertain that more men were employed on the job, or a greater number of hours were consumed, than was proper?

Mr. BANZHAF. I have made no direct examinations of repair yards myself. Most of my information on irregularities in repair yards—

that is, the definite information—is based upon examination of field auditors' reports, there in the fields at New York and Norfolk.

The CHAIRMAN. Do you examine the reports?

Mr. BANZHAF. Yes, sir; I investigate them, go into them, to see that the field auditors are properly covering their work, and find out what the conditions in regard to repairs are.

The CHAIRMAN. You examine the reports, do you not?

Mr. BANZHAF. I examine them briefly. I just investigate certain ones to get a general idea of the situation, not to examine specific auditors' work. I want to see, in a general way, how the thing is working out.

The CHAIRMAN. In a general way?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. After you have done that, what do you do?

Mr. BANZHAF. I have made reports to Washington on the situation.

The CHAIRMAN. Do you make any detailed examination of any particular yard yourself?

Mr. BANZHAF. I have never done so; no, sir; except——

The CHAIRMAN. Interviewed any of the proprietors of the yards yourself?

Mr. BANZHAF. I interviewed the proprietors of the Liberty Iron Wire in Norfolk. I have, of course, had occasion to interview the proprietors of the Morgan Engineering Co., in Jersey City, and perhaps a few other cases, but that is about all. Most of my investigations, when I visit the yards, have been with the representatives of the Shipping Board itself, the field auditors, and the chief checkers.

The CHAIRMAN. As far as you know from anything anybody in authority in the Shipping Board has told you, either personally or by letter, all these matters that the field auditors have investigated and brought to your attention may have been looked into and adjusted or corrected?

Mr. BANZHAF. No, sir; I do not believe so, not from information I have received.

The CHAIRMAN. You think that these matters still are outstanding?

Mr. BANZHAF. I think that Commander Woodward's letter, which I read yesterday, virtually confirms what I stated. That is a recent letter, June 30. John T. Meehan made the statement to me that they were gold diggers in New York; he told Inspector C. B. Dalby that all the New York yards were crooked. That is his view, and while they do not have the deductions on the bills, as I explained yesterday, for the reason that they do not render the bills and certify to them before the field auditor goes over them, as they did formerly, the fact remains, as various people have stated, that the work is crowded, and there is no question at all but that while the work does not exist, or is not needed, it is still being requisitioned.

The CHAIRMAN. Have you any question, Mr. Kelley?

Mr. KELLEY. In your investigation of the accounts of different contractors, do you recall whether or not it is customary for the contractor to include in items of expense which can be charged in his contract with the Shipping Board sums of money for establishing credit?

Mr. BANZHAF. I have never come across any such instance.

Mr. KELLEY. In this report on the Providence Engineering Co. of November 30, 1918, I want to call your attention to three items included under the head of "payments for expenses," and chargeable to the Shipping Board: "For amounts allowed W. Downey by board of directors for indemnity bond, \$7,825." Is that a proper charge against a contract?

Mr. BANZHAF. It depends on the contract. What is the nature of the work?

Mr. KELLEY. Well, an indemnity bond.

Mr. BANZHAF. No. Is it a repair job?

Mr. KELLEY. No; no; it is a shipbuilding contract.

Mr. BANZHAF. Construction?

Mr. KELLEY. Construction.

Mr. BANZHAF. That would depend on the contract itself. The contract would probably provide a certain charge for labor and material, and then overhead. Well, the insurance is part of the overhead.

Mr. KELLEY. This is put in as a direct expense, not in the overhead.

Mr. BANZHAF. Unless it is provided for in the contract, I would not say that that should be put in the direct charge. It should be part of the overhead.

Mr. KELLEY. Unless there was a special provision in the contract permitting it?

Mr. BANZHAF. Yes, sir.

Mr. KELLEY. "For services as chairman of the board of directors, at \$1,000 per month for six months, \$6,000." Would that be a proper direct charge against this contract?

Mr. BANZHAF. No, sir.

Mr. KELLEY. "September, 1918, for partial payment for furnishing and guaranteeing financial credit and working capital, \$10,000." Would that be a proper charge?

Mr. BANZHAF. No, sir; not a direct charge.

Mr. KELLEY. I mean a direct charge. And so far as you know, such charges are not audited in this way and passed as a proper charge against the contract direct?

Mr. BANZHAF. Not unless they are specifically provided for as direct charges in the contract itself. And I would like to state that I am an auditor of operations, and I have had very little occasion to do anything whatever on the division of construction side.

Mr. KELLEY. So you do not know whether or not, if a contractor was obliged to pay somebody for credit—for strengthening his credit—that would be a proper charge against the construction of the ship under a cost-plus contract?

Mr. BANZHAF. I would say not; no.

Mr. KELLEY. And if such a charge as that were audited and passed and allowed, it would be an improper charge against the Government, in your judgment?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. Have you looked into any matters concerning the United States Bureau of Survey?

Mr. BANZHAF. I have examined the contract quite closely and made notes of the various provisions. The chief function of the Bureau of Survey is to provide a record which shall be used to check and approve bills of the United States Shipping Board. For

that service they are paid \$50 per survey for ships of 5,000 tons and under.

The CHAIRMAN. I think we have the contract. Have you looked into any matters where they have rendered service or where they have been asked to render service or where requisitions have been filed?

Mr. BANZHAF. I have inquired quite closely as to their workings. They were supposed to start functioning July 1, and I find that they are a serious hindrance to the effective workings of the cost repair department, for the reason that they hold up requisitions, and the result is that the time and material checkers on the job do not receive the requisitions very often until several days after the work has been started—sometimes not until after the ship has sailed.

The CHAIRMAN. Have you any instance of that in mind—any particular ship where that occurred?

Mr. BANZHAF. No, sir; I have not. I just-inquired into the condition. I have inquired several times to see whether or not the thing had started working, and apparently it has not, from the information I received in the repair cost audit department in New York.

The CHAIRMAN. Have you made any inquiry as to the delay?

Mr. BANZHAF. Yes, sir; I have.

The CHAIRMAN. What is the reason for it?

Mr. BANZHAF. Why, as near as I can find out, they have not been able to perfect their organization.

The CHAIRMAN. Then, of course, they have not done any surveying, and they are not being paid for it, are they; no repairs are being held up on that account, are there?

Mr. BANZHAF. I do not think so. I think the practice is to go ahead and do the repairs anyway, and the requisition comes along later. The time and material checkers use as a guide the workshop order of the repair company. They are making, as I understand it, principally condition surveys.

The CHAIRMAN. Do you know how many times a condition survey is made, usually?

Mr. BANZHAF. I have been informed by an inspector of the C. and R. department that one condition survey a year should be sufficient.

The CHAIRMAN. How many times are they making them, do you know?

Mr. BANZHAF. According to the contract, they are allowed to make five, and I believe it is the repair order—let's see, some place it states that three must be made. I think that is the repair order of May 28.

The CHAIRMAN. Do you know anything about the collections made on account of charter-hire?

Mr. BANZHAF. I have had two men working on the charter hire ledger for some time. I made a preliminary investigation to see how they were getting along, and examined quite a number of the accounts. I find that there are quite a large number of the accounts either bankrupt or in the hands of equity receivers.

The CHAIRMAN. What do you mean by "account bankrupt"?

Mr. BANZHAF. Well, the information we get is that the concerns are bankrupt.

The CHAIRMAN. The money has not been paid?

Mr. BANZHAF. As I understand it, we have not been able to secure any information about it, that work is still in progress.

The CHAIRMAN. Well, if the work is still in progress, how do you know a concern is bankrupt? How do you know, if you have not completed your report?

Mr. BANZHAF. I say, I have taken that information from the department down there.

The CHAIRMAN. What department?

Mr. BANZHAF. The charter hire department.

The CHAIRMAN. Well, have you examined the books of the concern to know whether they are bankrupt or not?

Mr. BANZHAF. We are working on the books of the New York office at present. The work has not been finished.

The CHAIRMAN. How do you know whether they are bankrupt or not?

Mr. BANZHAF. I am only taking the information I have received from the department down there.

The CHAIRMAN. Well, as a matter of fact, you don't know anything about it, do you? You have not examined the concern's books? You are taking what somebody told you in the Shipping Board?

Mr. BANZHAF. The reason I am taking that is because there is what I consider more important work to be done. There are a considerable number of concerns which are still considered good. My idea of this thing is to cover those concerns thoroughly first. Those books are not in shape to give an up-to-date account with the companies, and I have sent men to Washington——

The CHAIRMAN. Mr. Banzhaf, when you get through your examination you may find that the concerns are all right and that they are simply slow in payment?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. And they may not be bankrupt?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. Have you got any evidence to show that any concern having a ship with a charter-hire arrangement with the Shipping Board is actually bankrupt? Have you got any evidence to that effect; any facts to disclose which would show that?

Mr. BANZHAF. I have none with me; no, sir.

The CHAIRMAN. Well, are there any in existence anywhere in the Shipping Board files?

Mr. BANZHAF. As I have stated before, I have gone ahead with these other matters. I have taken this information for what it was worth, and I have gone ahead on the accounts which are considered good because I believed they were most important; but even while we have been examining these books, or these accounts, I have been told that a number of concerns have gone bad.

The CHAIRMAN. Yes, sir.

Mr. BANZHAF. Now, I wanted to save the accounts which we considered good and get those established, and then the accounts which we were informed were either bad or in the hands of equity receivers could be taken up later, and whatever was necessary——

The CHAIRMAN. How much is involved; do you know?

Mr. BANZHAF. The total amount?

The CHAIRMAN. Yes, sir.

Mr. BANZHAF. At October 31 there were charges of \$13,000,000 on the books and \$3,000,000 credit, as I remember.

The CHAIRMAN. \$3,000,000?

Mr. BANZHAF. Approximately that.

The CHAIRMAN. To be deducted from that?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. Do you know how much has been collected?

Mr. BANZHAF. Since October 31, I could not say.

The CHAIRMAN. No; all together.

Mr. BANZHAF. No; I have no such figures available at the present time.

The CHAIRMAN. There was \$13,000,000 due the Shipping Board?

Mr. BANZHAF. Yes, sir.

The CHAIRMAN. And \$3,000,000 to be allowed as credit against that sum?

Mr. BANZHAF. Approximately; yes, sir.

Mr. KELLEY. Just what do you mean by charter hire payments, Mr. Banzhaf?

Mr. BANZHAF. The standard form of charter hire, the only one I have been able to secure a copy of, provides that the charter hire shall be paid in advance on the boat each month. Five dollars per dead-weight ton is one form I have seen.

Mr. KELLEY. And do you mean that there is an arrearage on contracts of that kind of about \$10,000,000?

Mr. BANZHAF. Yes, sir.

Mr. KELLEY. As of the 31st of October, 1920?

Mr. BANZHAF. Yes, sir.

Mr. KELLEY. How far in arrears would these accounts be?

Mr. BANZHAF. That is one of the matters that I have been trying to adjust. Another thing that has been the trouble is that the Washington office does the billing and submits memoranda to the New York office to charge the different charterers, and also "off hire" certificates, delivery certificates, and so on. That has been a bad side of it, because all the charter parties have not been found in the New York office. It was necessary to completely analyze the charter ledger and send the accounts to Washington. The charters, or copies of the charters, should have been in the New York office. I would like to state that as a matter of fact if complete adjustments were made for all charter hire which is due that amount might be considerably increased, but until these men have finished their work I could not state definitely just how much.

Mr. KELLEY. Before these accounts would be turned over to you they would be in arrears for some little period of time?

Mr. BANZHAF. Yes, sir.

Mr. KELLEY. For how long a time?

Mr. BANZHAF. I think that those men will take at least four weeks to clean up the accounts.

Mr. KELLEY. No; I do not mean that. I mean, how far in arrears are these payments?

Mr. BANZHAF. Well, I have looked over the accounts, and I could not give any average, but some of them are months behind, apparently.

Mr. KELLEY. How many months?

Mr. BANZHAF. Oh, I think perhaps three or four months; more sometimes. You see, they have changed the basis. I am told, in Washington, I received the information that some of these companies which were taking boats on charter hire had had their contracts changed to another form of agreement, purchase agreements. I could not account for that, because I can not understand why it is, if the company is not able to pay charter hire, it is to be credited so much money against the purchase price. As a result of this, in a number of accounts I find that charter hire running for several months has been canceled, and that the account shows a credit balance. I think I noticed some such thing in the Fox accounts.

Mr. KELLEY. Well, have you in mind certain corporations that are in a failing condition, and which have been in arrears for some months?

Mr. BANZHAF. Well, the French-American Line has been in arrears.

Mr. KELLEY. How much do they owe the Government?

Mr. BANZHAF. I could not state that, because, as I say, the books have not been adjusted. You see, they are in very bad condition; it will be necessary to find out, in the first place, all the charges which should be placed upon the books. All the charges have not been placed upon the books, apparently. Charges are slow coming through from Washington.

Mr. KELLEY. Well, then, this matter is really in process of auditing?

Mr. BANZHAF. Yes, sir.

Mr. KELLEY. And you do not really know much about how it will turn out?

Mr. BANZHAF. No, sir.

Mr. KELLEY. This \$10,000,000 in arrears is out of a total of how much charter hire?

Mr. BANZHAF. Well, that is another thing that would have to be determined from the—

Mr. KELLEY. Well, is it a small amount or a large percentage, or don't you know?

Mr. BANZHAF. It would not be possible to state.

Mr. KELLEY. Of course, every business man would be expected to have some bad accounts, I suppose?

Mr. BANZHAF. Yes, sir.

Mr. KELLEY. Do you think this is proportionately large, or don't you know anything about it?

Mr. BANZHAF. If you care for an estimate, the man that examined this work said—he just gave an estimate—he thought that perhaps 20 per cent was collectible.

Mr. KELLEY. Twenty per cent of this \$10,000,000?

Mr. BANZHAF. Yes, sir. The fact that these people are in equity receivership or bankrupts, according to the information we received, indicates that.

Mr. KELLEY. Have you any information to show that anybody was negligent in the collection of these accounts?

Mr. BANZHAF. I think the big fault, perhaps, or one of the big faults, might be the method of billing from Washington. That is one of the reasons, I think.

Mr. KELLEY. Well, whose fault is it that this \$10,000,000 has not been collected or the ships taken back?

Mr. BANZHAF. I think one of the faults has been the extension of credit, when it was not justified; and that would be due to the lack of a proper credit system, up-to-date information on credits, such as a first-class mercantile concern always has.

Mr. KELLEY. Were these concerns proper concerns to enter into these contracts with, in the first instance? Do you mean that their credit was not such that they should have had a contract at all?

Mr. BANZHAF. That would depend upon their capital at the start. I have had no opportunity of examining any of those concerns, and unless an examination could be made of their books, to show their true condition when they started this charter-hire arrangement with the Government, I could not give you any very close opinion. The only thing that you can say, or the only way you have of judging, is that they have not paid the charter hire as the charter party provides, in advance.

Mr. KELLEY. Well, there might be some reasonable excuse for not doing that, and some reasonable excuse for giving them a little time to pay it, might there not?

Mr. BANZHAF. Yes, sir; but the trouble is——

Mr. KELLEY. You do not know whether the excuses were reasonable or not?

Mr. BANZHAF. No, sir.

TESTIMONY OF MR. RICHARD W. BOLLING.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Where do you reside, Mr. Bolling?

Mr. BOLLING. 2326 California Street, Washington, D. C.

The CHAIRMAN. Is that a copy of a telegram you sent to me some days ago [handing witness paper]?

Mr. BOLLING. It is, sir.

The CHAIRMAN. I will read this for the record, before we begin with your examination:

WASHINGTON, D. C., November 21, 1920.

Hon. JOS. J. WALSH,

Chairman Walsh Committee, Federal Building, New York:

A witness appearing before your committee at New York on Saturday stated that I had a financial interest with him and others in a shipping contract procured through my influence or intervention with the United States Shipping Board. Every part of Mr. Sands statement is unqualifiedly false and without the slightest foundation in fact. My every transaction with Mr. Sands before his indictment and while he was vice president of the Commercial National Bank, whose affairs he has been charged with unlawfully manipulating, was open and honorable in every way and in no way connected with any branch of the Government of the United States.

The statements made by Mr. Sands before your committee are the attempts of an embittered man to destroy my reputation and standing in the community because I refused to use my personal relationship with the President of the United States to save him from an indictment. My every transaction with Mr. Sands was honorable and legitimate in every way and only a dishonest man would seek to twist and distort its purpose.

In justice to myself I therefore most respectfully ask your committee to make full and thorough inquiry into these charges and to give me the earliest opportunity to make full and complete answer to these base and malicious innuendoes.

(Signed) R. W. BOLLING.

Is that a copy of a registered letter you mailed me recently, Mr. Bolling [handing witness letter]?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. I take it, from glancing through the letter, Mr. Bolling, that this contains a summary of certain transactions you have had with Mr. Sands.

Mr. BOLLING. My transactions with Mr. Sands; yes, sir.

The CHAIRMAN. Then we will proceed with your testimony.

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And if you need the letter to refresh your recollection you may refer to it.

Mr. BOLLING. Well, I have practically the same thing here. Now, if I may, sir—

The CHAIRMAN. Are you an official of the Shipping Board, sir?

Mr. BOLLING. I am, sir.

The CHAIRMAN. What position do you hold?

Mr. BOLLING. Treasurer.

The CHAIRMAN. How long have you been treasurer?

Mr. BOLLING. Since May 1, 1920.

The CHAIRMAN. And were you employed by the Shipping Board prior to that time?

Mr. BOLLING. I was, sir.

The CHAIRMAN. In what capacity?

Mr. BOLLING. As assistant treasurer, division of operations.

The CHAIRMAN. How long had you been in that position?

Mr. BOLLING. Since August 23, 1917.

The CHAIRMAN. Were you with the board prior to that time?

Mr. BOLLING. No, sir.

The CHAIRMAN. What had been your business prior to becoming connected with the Shipping Board?

Mr. BOLLING. I had been in the real estate business in Washington, and for a short while I had worked in the bank examiner's office in New York.

The CHAIRMAN. Were you engaged in any other business prior to that?

Mr. BOLLING. Well, away back, 10 years before that, I had been in Bridgeport, Conn., with the American Graphophone Co., sir.

The CHAIRMAN. Were you ever in the building business?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. When was that?

Mr. BOLLING. That was from about 1914 to the beginning of 1917.

The CHAIRMAN. Do you know Mr. Tucker K. Sands?

Mr. BOLLING. I do, sir.

The CHAIRMAN. How long have you known him?

Mr. BOLLING. Since about 1913.

The CHAIRMAN. Have you had any business transactions with him?

Mr. BOLLING. I have, sir.

The CHAIRMAN. What were they?

Mr. BOLLING. Well, I built him a house; that is the largest business transaction that I had with him, sir.

The CHAIRMAN. When was that?

Mr. BOLLING. The contract was let in the spring of 1916.

The CHAIRMAN. Just what was the arrangement about that, Mr. Bolling?

Mr. BOLLING. Well, I was in business with an associate, Mr. William Todd, of Washington, and we heard that Mr. and Mrs. Sands were contemplating building a house, and we approached them with the idea of securing the contract, and they said that they would build it if they could build it within the sum that they had set, and after negotiations they let a contract to us to build a house, I think, at the price of \$12,200.

The CHAIRMAN. Were you actually building the house yourself, hiring the carpenters and the masons and the bricklayers and all that?

Mr. BOLLING. Yes, sir; Mr. Todd and I jointly.

The CHAIRMAN. You and Mr. Todd?

Mr. BOLLING. Yes, sir. My agreement with Mr. Todd, my understanding with him, was that I should attend to the financing, and he being the more practical man, should attend to the details of the construction.

The CHAIRMAN. Did you enter into a written contract with Mr. Sands?

Mr. BOLLING. I am sure we did, sir. I have not that contract with me, but I can get it.

The CHAIRMAN. Are you and Mr. Todd still in business?

Mr. BOLLING. No, sir.

The CHAIRMAN. How long were you in business?

Mr. BOLLING. Why, I should say about two years, sir.

The CHAIRMAN. When was this house completed?

Mr. BOLLING. Between October 1 and 30, 1916. It was supposed to have been delivered October 1, but I think we were a little late on it.

The CHAIRMAN. Where is this house located?

Mr. BOLLING. 2319, I think, is the number, Tracy Place, Washington.

The CHAIRMAN. Was that house occupied by Mr. Sands?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And did the contract specify how it should be paid for?

Mr. BOLLING. Well, he should pay as it went along, sir. I do not know that any special amounts were mentioned, but that he was to always give us enough to finance the construction, attend to pay rolls, and so on. Of course, a great deal of the material was billed, and we had 30 to 60 days to pay it.

The CHAIRMAN. Well, did he pay for the house?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And was that house in the vicinity of where you resided?

Mr. BOLLING. Next door, sir.

The CHAIRMAN. How long did Mr. Sands live there?

Mr. BOLLING. From about 1916, October—I would say, sir, until 1918; I can not give you the dates, sir. That could be established.

The CHAIRMAN. How much did he pay you for that house?

Mr. BOLLING. He paid us the contract amount.

The CHAIRMAN. What was that?

Mr. BOLLING. \$12,200; but when we came to settle—during the course of construction Mr. and Mrs. Sands, especially Mrs. Sands,

had changed a great many things about the house that of course were not included in the plans or the specifications, and Mr. Sands understood that there would be an extra charge for those. But at the time that we came to settle both Mr. and Mrs. Sands took exception to the amount of those charges, and after a good deal of talk back and forth, in which they showed great dissatisfaction, we at first reduced it—I think the amount exactly was \$1,511 for the changes that they had made, and Mr. Todd and I voluntarily reduced it to \$1,200 to try to get an amicable settlement; and still it was not satisfactory and there was a great deal of feeling shown about the size of these extras, or the cost of them. So in order not to have any disagreeable feelings with people that were going to live next door to me, I voluntarily waived my share of those extras.

The CHAIRMAN. What was your share?

Mr. BOLLING. About \$600.

The CHAIRMAN. And did they pay the other \$600?

Mr. BOLLING. They paid the rest. Well, Mr. Sands gave me his note for the rest, that is, he owed about \$6,000 in all to settle the whole thing, that including the \$600 that was to go to Mr. Todd, and he gave me his note covering that, and on those terms the settlement was made. I took his note and discounted it, with my indorsement.

The CHAIRMAN. There was \$5,400 due on the house, and \$600 due on the extras which he paid?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And he gave you a note for that sum?

Mr. BOLLING. A note for \$6,000; yes, sir.

The CHAIRMAN. For \$6,000, which you discounted?

Mr. BOLLING. Yes, sir. Now right there, sir, I would like to say that prior to that, in order to carry this work along, Mr. Sands had previous to that time given me a note. I have not a record of it, but as I remember it it amounted to \$5,000 or \$5,500, or something of that kind, and this \$6,000 took up the old note, you understand, and paid any little balance that was due on the contract price, and also covered Mr. Todd's fee of \$600.

The CHAIRMAN. This former note, on which there was a small balance due, was that given also in connection with the house?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Did he pay you by notes as the work went along?

Mr. BOLLING. No, sir; he paid me some in cash, and then told me it would be an accommodation to him if I would take his note, and that he would have it discounted in his bank; which I did.

The CHAIRMAN. What was Mr. Sands's business at this time, if you know?

Mr. BOLLING. He was vice president and cashier of the Commercial National Bank, Washington.

The CHAIRMAN. Had you known him for some time?

Mr. BOLLING. I had known Mr. Sands, I think, since 1913. I had done all my banking with the institution with which he was connected since about 1914.

The CHAIRMAN. That was the Commercial National Bank?

Mr. BOLLING. Washington, D. C.; yes, sir.

The CHAIRMAN. Well, now, did Mr. Sands pay that note, or rather, was that note taken care of?

Mr. BOLLING. Well, from time to time Mr. Sands curtailed that note, sir. That note was dated November 13, 1916, and he has curtailed it from time to time until to-day he owes \$900 on that note. I have an affidavit here, sir, from the bank, that gives the payments, curtailments [producing paper].

The CHAIRMAN. The original note was \$6,091?

Mr. BOLLING. I imagine, sir, that that is the way the bank makes such things up; I think that is the interest; I think those odd amounts are always the interest; I think so. The original note was \$6,000. I have it in my pass book here, sir.

(At the point Mr. Bolling made certain explanations to the chairman of the committee out of the hearing of the reporter.)

The CHAIRMAN. Now, Mr. Bolling, repeat just what you said to me a little louder, so that the reported may get it.

Mr. BOLLING. I have in the pass book the entry showing the discount of the original note, November 13, 1916, for \$6,000.

The CHAIRMAN. Was that note given to you personally?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Did you have a partnership agreement with Mr. Todd?

Mr. BOLLING. No, sir; nothing in writing from Mr. Todd.

The CHAIRMAN. And all the payments were made for work you and Mr. Todd did in construction by you in your name?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And then you and Mr. Todd had an arrangement about sharing the profits?

Mr. BOLLING. Sharing any profits; yes, sir.

The CHAIRMAN. Did you ever have any talk after that with Mr. Sands about these changes and extras?

Mr. BOLLING. Yes, sir; we had various talks with Mr. Sands as the changes would come up—

The CHAIRMAN (interposing). No; after that, Mr. Bolling?

Mr. BOLLING. After that, sir—

The CHAIRMAN (interposing). After he gave you this note for \$600?

Mr. BOLLING. Yes, sir. Mr. Sands told me from time to time that he intended to pay that. The first thing he said was that the reason he had apparently accepted this deduction on my part was that his wife was so much put out about the cost of these extras that he did it to keep peace in the family, I understood; but that he did not intend I should lose any part of my commission on the house, and that he intended to pay me that \$600 I had waived, and that was referred to by him several times.

The CHAIRMAN. After the house transaction, did you ever have any other business dealings with Mr. Sands?

Mr. BOLLING. Yes, sir; I did. I entered a brokerage firm, and Mr. Sands was to help finance the concern. We were buying a seat on the stock exchange, and Mr. Sands was to procure a loan for us of, I think, \$40,000, sir. I have not had time to look all of that up because I have not the books.

The CHAIRMAN. "For us"; who do you mean by that?

Mr. BOLLING. For the firm; yes, sir.

The CHAIRMAN. Who was the firm?

Mr. BOLLING. There was a man named F. A. Connolly, and H. W. Robertson, who were partners of mine. And for this service on the part of Mr. Sands we had agreed to pay him \$10,000 commission for procuring the \$40,000 loan.

The CHAIRMAN. When was this, Mr. Bolling?

Mr. BOLLING. That was around October or November, 1916; that is when I got out of the building business and went into this.

The CHAIRMAN. Was it before or after you had completed this house?

Mr. BOLLING. We had completed the house before.

The CHAIRMAN. Do you know if he had moved in there?

Mr. BOLLING. Yes, sir; he had moved in.

The CHAIRMAN. Did Mr. Sands finance your brokerage concern?

Mr. BOLLING. Yes, sir; he procured the \$40,000—he did not entirely finance it; no, sir. But I mean that much of it he financed.

The CHAIRMAN. He did what you had employed him to do?

Mr. BOLLING. He did what he had agreed to do.

The CHAIRMAN. Did you pay him a commission or fee?

Mr. BOLLING. I do not know, sir, whether the commission or fee was ever paid, because I resigned and got out of the brokerage concern in January or February, 1917, and it went on. In the meantime, they had taken in a new member in my place, Mr. Lorimer Graham, of Washington.

The CHAIRMAN. Are you sure as to the amount being \$10,000?

Mr. BOLLING. That was the agreement, yes, sir; that he was to be paid that.

The CHAIRMAN. This firm never owed him \$12,000 at any time, did it?

Mr. BOLLING. Not as I can recollect, sir; I do not remember it.

The CHAIRMAN. Who made this arrangement with him in reference to financing?

Mr. BOLLING. Mr. Connolly and Mr. Robertson had the arrangement with Mr. Sands. I put it in myself cash \$10,000 in that concern.

The CHAIRMAN. But you did not negotiate with him for this loan?

Mr. BOLLING. No, sir.

The CHAIRMAN. Or make the agreement as to what his compensation should be?

Mr. BOLLING. No, sir. I was cognizant of it, though.

The CHAIRMAN. You knew of it?

Mr. BOLLING. I knew of it; yes, sir.

The CHAIRMAN. Did you have an agreement in writing?

Mr. BOLLING. Never anything in writing; no, sir.

The CHAIRMAN. Did you have—

Mr. BOLLING (interposing). At least I never saw any agreement in writing, if there was one.

The CHAIRMAN. Did you have partnership articles for your firm?

Mr. BOLLING. No, sir; I think not.

The CHAIRMAN. Well, did you put \$10,000 in a brokerage concern, Mr. Bolling, without any articles of agreement?

Mr. BOLLING. I have not had time, sir, nor have I been able to get hold of these men who have all of the books on that transaction, because, you see, I got out of that concern—I got out of it three months before they closed their doors, and I had nothing to do with

their books, and I do not know now where they are. But I am going to try to get hold of those for you.

The CHAIRMAN. When you got out, was the money which you put in refunded to you?

Mr. BOLLING. No, sir; I lost everything I put into it.

The CHAIRMAN. Oh, you lost it?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Do you know of any transaction which occurred before you retired from that firm, which the firm had agreed with Mr. W. K. Sands, which may have resulted in a liability on the part of the firm to Mr. Sands of \$12,000?

Mr. BOLLING. No, sir. I will tell you what I have heard, but it is hearsay on my part.

The CHAIRMAN. Was this while you were a member of the firm, I mean?

Mr. BOLLING. No, sir; I do not know of anything while I was a member of the firm.

The CHAIRMAN. Did you establish offices in Washington?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Where were they?

Mr. BOLLING. On New York Avenue—I have forgotten the number; between Fourteenth and Fifteenth Streets.

The CHAIRMAN. And did you actively participate in the affairs of the concern?

Mr. BOLLING. Not very actively; no, sir——

The CHAIRMAN. Who did?

Mr. BOLLING (continuing). Because I was ill about a month, and I was only in the firm from, I should say, around November—of course, I was going into the firm; it was in process of making, but I did not go into the office until around the 1st of November, and I was out, I think, in January; and during that time I was ill for a long time.

The CHAIRMAN. What was the occasion of your retiring from the firm?

Mr. BOLLING. The reason I retired from the firm—there was a great deal of notoriety given to a note that the President had sent, and if you probably remember my name was mixed up in it, and I thought it better to get out of the brokerage business rather than be criticized in any way, shape, or form. That was all heard before the Committee of the House, and I was exonerated.

The CHAIRMAN. That was sometimes referred to as the "Lawson leak investigation"?

Mr. BOLLING. That is it; yes, sir.

The CHAIRMAN. And you retired from the firm in February?

Mr. BOLLING. Around the latter part of February, as I remember it; I can establish that, too, for you.

The CHAIRMAN. 1917?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And you charged off all you put into it?

Mr. BOLLING. I simply lost all I had put into it. There was no way of getting it.

The CHAIRMAN. Had the firm made any money?

Mr. BOLLING. No, sir; they lost heavily.

The CHAIRMAN. How long after you retired did the firm continue in business?

Mr. BOLLING. I should say until May or June; I think May, sir.

The CHAIRMAN. Are the former members of the firm in Washington now?

Mr. BOLLING. I think one of them is in Washington, and I do not know where the other one is—I think in New York.

The CHAIRMAN. Which one is in Washington?

Mr. BOLLING. Mr. Robertson.

The CHAIRMAN. Do you know what he is doing now?

Mr. BOLLING. He is in the automobile business, sir.

The CHAIRMAN. Do you know Mr. Beckerly?

Mr. BOLLING. Yes, sir; I do.

The CHAIRMAN. Was he connected with that firm in any capacity while you were there?

Mr. BOLLING. Not in any way, sir.

The CHAIRMAN. This \$10,000 was paid to Mr. Sands by this brokerage firm before you withdrew in February or March, 1917?

Mr. BOLLING. That was the agreement that it should be paid, sir; I do not know whether it was paid or not.

The CHAIRMAN. You do not know?

Mr. BOLLING. No, sir; I have not been able to get those books, and I have requested Mr. Robertson in Washington, no later than yesterday morning, to please give me that information. He promised to give it to me, but I could not get it; never came to my office. He promised it; and I have not any of the records of that firm.

The CHAIRMAN. How was it, Mr. Bolling, that when you withdrew from this brokerage firm which was still doing business, and you had put into it \$10,000—into the business——

Mr. BOLLING. Yes, sir.

The CHAIRMAN (continuing). You had secured a loan of \$40,000; that you had retired without taking any part back of the amount you had put in, or taking anything out of it whatever?

Mr. BOLLING. Oh, sir, there was nothing to take out of it. If you remember the note, which there was so much notoriety about, I think, went out around the 20th day of December, and the firm's books showed a great many stocks long, and the margins were not large, and a great many losses were incurred there; two, that I know of; one, that the firm probably lost \$8,000 on by not getting the margin on this man's account, and by letting the stock market go down and not selling it, because the stock market dropped so abruptly that they were caught with these stocks long; and the market did not come back for a long time.

The CHAIRMAN. You did not take any note or anything from the other members of the firm for what you put in there?

Mr. BOLLING. No, sir; I did not.

The CHAIRMAN. You just——

Mr. BOLLING (interposing). I simply cut loose and let everything go; I was disgusted thoroughly. There was not anything there to take, sir; I could not have taken it; these men had nothing.

The CHAIRMAN. Was it a mutual arrangement—your retiring from the firm?

Mr. BOLLING. No, sir; I informed them that I would retire immediately after that investigation, or probably while it was in course

of being investigated; and they asked me to remain for a day or two at least. I threatened to put it in the papers that afternoon that I was retiring from the firm, and they asked me to remain until they could go to New York and make certain arrangements with their New York correspondents, which I did. I waited a day or two, and then I did put it in all of the papers as an advertisement, that I had severed my connections with the firm and was no longer responsible for any debts.

The CHAIRMAN. Did you sign checks of the firm?

Mr. BOLLING. No, sir; I had nothing to do with that.

The CHAIRMAN. Who did?

Mr. BOLLING. Mr. Connolly.

The CHAIRMAN. Do you know what bank you carried the accounts in?

Mr. BOLLING. The Commercial National, Washington.

The CHAIRMAN. Mr. Sands's bank at that time?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Did you secure a seat on the stock exchange for your firm?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. In whose name was that?

Mr. BOLLING. F. A. Connolly.

The CHAIRMAN. You are sure, Mr. Bolling, that this brokerage concern—by the way, what was the name of it?

Mr. BOLLING. F. A. Connolly & Co.

The CHAIRMAN (continuing). Did receive the \$40,000 through the efforts of Mr. Sands?

Mr. BOLLING. They received the \$40,000, or the \$30,000, through the efforts of Mr. Sands. I have forgotten whether the \$40,000 covered his commission or whether that should be paid on the side. I think that he furnished \$40,000.

The CHAIRMAN. But you are not sure whether Mr. Sands got his \$10,000 or not?

Mr. BOLLING. I am not, sir; whether that was to be paid out of what we got or whether it was to be paid afterwards.

The CHAIRMAN. After you retired from the firm, did you enter into any business?

Mr. BOLLING. Yes, sir; that is the time I went into the bank examiner's office here.

The CHAIRMAN. In New York?

Mr. BOLLING. In New York.

The CHAIRMAN. Under whom?

Mr. BOLLING. Under W. P. Malburn.

The CHAIRMAN. Formerly Assistant Secretary of the Treasury?

Mr. BOLLING. I think he was, sir; but he was afterwards the chief bank examiner here in New York.

The CHAIRMAN. How long did you say you remained there?

Mr. BOLLING. I went with them somewhere in April and left them about the 20th day of August, 1917.

The CHAIRMAN. After that, during that period, of course, you were here in New York?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Did you have any correspondence or communications or interviews with Mr. Tucker K. Sands during that period?

Mr. BOLLING. I was in Washington several times, and I may have had; in all probability I did.

The CHAIRMAN. Did that involve any business transactions of the past, or——

Mr. BOLLING (interposing). Well, now, at the time I left the firm of Connolly & Co. there was charged to my account, oh, something like \$7,000 or \$8,000, and that represented stocks that I had owned previous to the time of going into the firm. I had been with Connolly and had made some money in the stock market, but in this crash that came I got caught, and so I had deficits there of about \$7,000—\$7,500, I think, to be exact. That I have found; I can substantiate that. Mr. Sands loaned me the money. I do not know whether personally or through the bank, but I got it through him to square up that indebtedness, because I did not want to leave there owing them a nickel. But I paid that within four or five months by putting a mortgage on my house and getting rid of everything I had; and I have those canceled checks showing that that was paid back to him.

The CHAIRMAN. Was this \$7,500 lost in addition to the \$10,000 you put into the firm?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. So that experience cost you in dollars and cents, \$17,500?

Mr. BOLLING. Yes, sir; that is the one I made a million on.

The CHAIRMAN. While you were in the bank examiner's office were you paying on account of this note?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Do you think Mr. Sands made you that loan personally or through the bank?

Mr. BOLLING. I imagine that Mr. Sands made me that through the bank; I have no way of telling that; I have not the notes now.

The CHAIRMAN. Have you not the canceled checks?

Mr. BOLLING. I have my canceled checks repaying it, but I did not bring those checks with me. [After a pause.] Wait a minute; I believe I can. [Producing book before the committee.] This establishes that date, about. I find that Mr. Sands loaned me \$1,000 January 6, 1917; \$2,000 January 11, 1917; "Loan, Sands, \$4,500, January 17, 1917." Now, sir, I will show you when I paid those things.

The CHAIRMAN. You mean these were loans from Mr. Sands?

Mr. BOLLING. This is the only thing I have to go by, sir, is what is in this book; and I am going to find how I made the repayment checks, whether I made them to him personally. I remember telling him at the time that if he could let me have that money I showed him the way I could give it back to him beyond a doubt within a certain period of time.

I made a loan on a house that was in my wife's name, but I put a mortgage on it, No. 1801 California Street, April 17, 1917, and paid Sands out of that loan, \$3,500. I have got that marked "Sands."

The CHAIRMAN. Out of the \$6,500 that you borrowed?

Mr. BOLLING. \$7,500, I think, sir, it would make.

The CHAIRMAN. \$7,500 is right. Now, Mr. Bolling, was that payment made direct to Mr. Sands?

Mr. BOLLING. I think so, sir. I have the original checks on that; I can establish that. I find here that I got a discount in the bank of \$3,500, May 11, and that I paid Mr. Sands \$3,660 on May 11, 1917. Now, I find that I paid another amount of \$250.84. Of course, I imagine, the interest was in there, and that was on the same date; and another one of \$104.15.

The CHAIRMAN. What dates were these?

Mr. BOLLING. All of these appear under date of May 11. I paid them on the same date. That would make a total of \$7,514.99.

The CHAIRMAN. All these payments were made to Mr. Sands personally?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. According to the stubs of the book?

Mr. BOLLING. According to the stubs of the book, and I have the checks at home. I did not bring that, sir, because this was way back in 1917.

The CHAIRMAN. Were those checks sent to Mr. Sands by letter?

Mr. BOLLING. I imagine not. Let me see—let me see that date; when was that?

The CHAIRMAN. May 11.

Mr. BOLLING. I imagine not, sir; I imagine that I gave those to Mr. Sands personally. I could not state that, sir.

The CHAIRMAN. You were here in New York then?

Mr. BOLLING. I was here at that period, but I made several trips back to Washington.

The CHAIRMAN. Did you move up here to live?

Mr. BOLLING. Oh, no; I came up here in November, and I used to go back almost every week.

The CHAIRMAN. During that period, when you had borrowed this money apparently from Mr. Sands and repaid it, and made a mortgage on the house to raise \$3,600, was anything said between you with reference to this balance due on account of extras?

Mr. BOLLING. Well, sir, this was all in regard to the Connolly Co. I could not say whether it was said at that time, but it was mentioned several times between—

The CHAIRMAN (interposing). No; you did not get my question.

Mr. BOLLING. I beg pardon.

The CHAIRMAN. You borrowed this money from Mr. Sands, apparently, as you say you did from the stubs in your check book, in various amounts, totaling some \$7,500; and when you came to repay the amount was anything said at any time about repayment concerning this balance due of \$600 on account of extras on the house, which you say he previously had told you that he would pay?

Mr. BOLLING. I could not remember, sir. I think not, because it evidently would have been deducted.

The CHAIRMAN. And you think there was nothing said about it?

Mr. BOLLING. As my memory serves me, nothing would be said about it; nothing was said.

The CHAIRMAN. In any event, the amount due, or which you say he acknowledged to be due, of \$600, was not deducted from this transaction?

Mr. BOLLING. No, sir.

The CHAIRMAN. At that time did Mr. Sands owe you something on account of the house?

Mr. BOLLING. Of the note there—of course, the note was really payment, so far as I was concerned. Did you mean the note?

The CHAIRMAN. Yes, sir; on the note.

Mr. BOLLING. May 14, 1917, he owed \$5,000 apparently—\$5,076 here, but I think that is interest—\$5,000 even.

The CHAIRMAN. Was there any other transaction between you and Mr. Sands while you were here in New York?

Mr. BOLLING. No, sir; I am sure there were none others.

The CHAIRMAN. Did Mr. Sands have an account with your brokerage firm?

Mr. BOLLING. I think he did, sir.

The CHAIRMAN. Do you know how large an account that was?

Mr. BOLLING. No, sir; I could not say. I know he had one, and I think his wife had one; probably his daughter had one—his step-daughter.

The CHAIRMAN. Do you know whether any other members of his family had an account there?

Mr. BOLLING. No, sir; I think not, and those may not have been in their names, don't you know.

The CHAIRMAN. You left the bank examiner's office here in August, 1917.

Mr. BOLLING. That is right, sir.

The CHAIRMAN. And returned to Washington?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And did you engage in any business then?

Mr. BOLLING. I went straight from here to the Emergency Fleet Corporation.

The CHAIRMAN. Who gave you your appointment?

Mr. BOLLING. Well, Mr. R. B. Stevens, who was then a commissioner, was the gentleman who was most active in—I had written him several letters and applied for the position; I had been trying to get the position for two or three months before I got it. But they were in a period of formulation, and apparently they were not ready to employ people. I think I have some letters from Mr. Stevens.

The CHAIRMAN. This was in August, 1917?

Mr. BOLLING. That is right, sir.

The CHAIRMAN. And you had applied to Mr. Stevens several times for the position in the Shipping Board?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Two or three months previously?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. But you were unable to secure a position until August?

Mr. BOLLING. Yes, sir; that is right.

The CHAIRMAN. What was your appointment when you finally secured this position?

Mr. BOLLING. Assistant treasurer, division of operations, United States Shipping Board.

The CHAIRMAN. United States Shipping Board?

Mr. BOLLING. Yes, sir; that is right, United States Shipping Board Emergency Fleet Corporation—I am really an employee of the Emergency Fleet; I should not say Shipping Board.

The CHAIRMAN. What was your salary?

Mr. BOLLING. \$4,000.

The CHAIRMAN. Were you bonded?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. How large a bond did you give?

Mr. BOLLING. I think at that time \$25,000.

The CHAIRMAN. Did you take an oath of office?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And who was the treasurer at that time?

Mr. BOLLING. Really had not appointed a regular treasurer. Mr. Stevens himself was acting treasurer; he was also a commissioner.

The CHAIRMAN. One of the members of the Shipping Board was acting as treasurer for the Emergency Fleet Corporation?

Mr. BOLLING. Yes, sir.; but he was not active in it at all.

The CHAIRMAN. Why did you not try to be appointed treasurer at that time?

Mr. BOLLING. Well, I would have liked to be.

The CHAIRMAN. Did you not know there was no treasurer?

Mr. BOLLING. No; I did not know there was no treasurer until I got there, sir.

The CHAIRMAN. What did your duties consist of?

Mr. BOLLING. Well, sir, for two or three months I worked with Mr.—the day I came in, I will explain: Mr. Stevens had me come up and had me introduced to Mr. W. L. Soleau, who was the disbursing officer for the United States Shipping Board, and turned me over to Soleau, told me to go in and get Soleau; and from that day on Mr. Soleau was working on an accounting system for the Emergency Fleet Corporation, and I really had nothing to do with moneys until around November, 1917.

Mr. Soleau had put the Emergency Fleet Corporation money derived from operation of vessels in a separate account to his credit; had just held them there, because there were no disbursements being made at the time except on account of the Shipping Board. And in November, 1917, Mr. Soleau and several men came over to New York to formulate the accounting system for the division of operations. At that time about \$4,000,000, as I remember it, was turned over to me as the assistant treasurer, division of operations, and we began making disbursements, set up books, and started.

The CHAIRMAN. So you and Mr. Soleau set up the original accounting system for the division of operations.

Mr. BOLLING. Well, no; I would not say that I did. But Mr. Soleau and some accountants that he had with him did. I came over several times with them and helped him in any way I could, but I had nothing to do with setting them up, sir.

The CHAIRMAN. Did you have anything to do during this period with awarding or negotiating contracts?

Mr. BOLLING. No, sir.

The CHAIRMAN. With builders or repair men or operators?

Mr. BOLLING. Absolutely nothing, sir.

The CHAIRMAN. While you were there in this capacity were you consulted by people with reference to construction contracts—the furnishing of materials?

Mr. BOLLING. No, sir; never.

The CHAIRMAN. And securing of contracts?

Mr. BOLLING. No, sir; I had nothing to do with the payments, and I do not think I knew two men in the construction division at that time.

The CHAIRMAN. So nobody in the Fleet Corporation talked to you about contracts, repairs, purchase of materials, furnishing of material, awarding of contracts, financing of contracts, or anything else?

Mr. BOLLING. Absolutely not, sir.

The CHAIRMAN. Did anybody outside confer with you?

Mr. BOLLING. No, sir.

The CHAIRMAN. Nobody sought to secure your influence in any way with reference to the awarding or negotiating of contracts or the furnishing of material, or the financing of shipbuilding concerns?

Mr. BOLLING. Not at all, sir; none at all.

The CHAIRMAN. Were you sought by outsiders, so to speak—that is, I mean people who were not included within the organization of the Shipping Board or the Fleet Corporation—were you besought by them to assist in securing appointments?

Mr. BOLLING. Yes, sir; I was from time to time.

The CHAIRMAN. Did Mr. Tucker K. Sands ever ask you to secure any appointment for anybody, or to indorse anybody for appointment?

Mr. BOLLING. No, sir; none that I can think of, sir—never.

The CHAIRMAN. Now, then, up to this point was Mr. Sands living next door to you—up to November, 1917?

Mr. BOLLING. In August—August 1, I think, sir—I rented my house for a period of one year—well, anyhow, until October 1, 1918—to some people in Washington.

The CHAIRMAN. Where did you go to live?

Mr. BOLLING. I then went to the Westmoreland Apartment.

The CHAIRMAN. Did you see Mr. Sands frequently during this period?

Mr. BOLLING. Well, whenever I would go into the bank I would see him; yes, sir.

The CHAIRMAN. Did you call at his house up to November—between—well, from that time forward.

Mr. BOLLING. I may have, sir; I do not remember whether I did or not.

The CHAIRMAN. If you did, were they social calls, or were they in connection with this?

Mr. BOLLING. Absolutely social—not in connection with business. I had no business dealings with Mr. Sands that I can remember between—well, from that time forward.

The CHAIRMAN. Up to November, 1917, you say you were not asked with reference to any contract between the Shipping Board or the Fleet Corporation or anybody else?

Mr. BOLLING. No, sir.

The CHAIRMAN. You were not consulted with reference to the financing of any shipbuilding concern?

Mr. BOLLING. No, sir.

The CHAIRMAN. But you were at this time treasurer, were you not?

Mr. BOLLING. Of the Division of Operations, which had nothing in the world to do with construction, being entirely separate.

The CHAIRMAN. Had nothing to do with construction of ships?

Mr. BOLLING. Had nothing to do with the construction of ships; had nothing to do with the letting of contracts. They were entirely engaged in the operations of vessels, and they had their hands full.

The CHAIRMAN. Were you consulted by people inside of the Shipping Board—within the organization of the Shipping Board or the Fleet Corporation—with reference to the operation of ships—the financing of operations?

Mr. BOLLING. Operations—in just what respect, sir? The people inside? Of course, we talked over things; yes; many times, sir.

The CHAIRMAN. Were you consulted with reference to the accounts of operators or the amounts due or chief terms of the agreement?

Mr. BOLLING. No, sir; those things did not come up at that time. The chief thing that we were all working for at the time was to set up some records, because the Shipping Board had been going on then for, I think, almost six months; vessels were being operated and voyage accounts were not coming in, and it looked like then it was a gigantic task to go back and set up all these records and find out where this money that they had really came from—the \$4,000,000 that was turned over to me—and that was the principal thing I was working on.

The CHAIRMAN. Were you besought by people outside of the organization of the Shipping Board and the Emergency Fleet Corporation with reference to securing ships for operation?

Mr. BOLLING. During that period I doubt if I was; I have been, often.

The CHAIRMAN. You stated you were anxious to secure a position with the Fleet Corporation?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Why were you anxious?

Mr. BOLLING. Because I wanted a job, sir; I needed the money.

The CHAIRMAN. What was the reason you picked out the Fleet Corporation?

Mr. BOLLING. None whatever, sir. I would have just as soon been in the War Department or any of them; it was just simply a question of making a livelihood.

The CHAIRMAN. But had you applied to any other branch of the Government for a position?

Mr. BOLLING. No, sir; I had not. I was already in the Government, in the office of the bank examiner.

The CHAIRMAN. What was your salary there?

Mr. BOLLING. About—I think when I left there about \$2,600, sir.

The CHAIRMAN. I think you have stated you are married.

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Have you any children?

Mr. BOLLING. Four.

The CHAIRMAN. How old are you, Mr. Bolling?

Mr. BOLLING. Forty-one.

The CHAIRMAN. After November 7, 1917, you continued as assistant treasurer of the division of operations?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Did you have any financial transactions with Mr. Tucker K. Sands after that up to February 1, 1918?

Mr. BOLLING. February 1, 1918—on February 1, 1918, was when this question of the bending rolls came up, sir.

The CHAIRMAN. Was that a financial transaction?

Mr. BOLLING. Shall I go ahead with that now, sir?

The CHAIRMAN. Yes; if that is a financial transaction.

Mr. BOLLING. Yes. I will just read the report on that, sir.

The CHAIRMAN. What report are you reading from?

Mr. BOLLING. That is just a statement of that transaction.

The CHAIRMAN. Your statement?

Mr. BOLLING. Yes, sir; my statement [reading]:

Early in 1918, about January, Mr. Sands sent a Mr. Cranor to see me in regard to some machinery which was to be used in connection with construction of vessels. Mr. Cranor told me that the machinery in question was "bending rolls," and was to have been shipped to his company from the factory, but at the last minute some other company succeeded in having the order changed, and that this machinery would be diverted to them; that a great injustice was being done to his—Mr. Cranor's—company, and it would mean great delay, as they were ready to put plates on several hulls, but could not do so without the bending rolls. I knew nothing about the construction division, as I was in the division of operations, so, in the presence of Mr. Cranor, I called up Mr. Lester Sisler, who was then secretary of the Shipping Board, and explained the matter to him. He said he would look into it, and subsequently told me that he found upon inquiry that the rolls had been promised to Mr. Cranor's company, and would be shipped to his company.

The CHAIRMAN. Where did you meet Mr. Cranor?

Mr. BOLLING. In my office.

The CHAIRMAN. In the Shipping Board?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Was that the first time you ever met him?

Mr. BOLLING. That was the first time I ever saw him, sir.

The CHAIRMAN. The first time you had ever heard of him?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Did Mr. Sands accompany him?

Mr. BOLLING. No, sir; as I remember it, he sent his card, introducing Mr. Cranor—that is about all—or he may have even told me that he came from Sands; I do not remember that.

The CHAIRMAN. Did Mr. Sands tell you what Mr. Cranor wanted?

Mr. BOLLING. No, sir.

The CHAIRMAN. Did he call you up over the telephone?

Mr. BOLLING. No, sir.

The CHAIRMAN. Had he seen you previously and told you he was coming?

Mr. BOLLING. No, sir.

The CHAIRMAN. So the first you knew about this Cranor matter was when he arrived in your office?

Mr. BOLLING. Yes, sir. He is the man who explained it to me; nobody else.

The CHAIRMAN. What company did he say he was representing?

Mr. BOLLING. I think that he said Downey; I am not sure of that.

The CHAIRMAN. You are not sure of that?

Mr. BOLLING. No, sir.

The CHAIRMAN. Do you recall making a statement in the presence of the newspaper men in Washington when Admiral Benson gave out a statement with reference to Mr. Sands's testimony?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Did you make this statement [reading:]

In the spring of 1918 he still owed a little over \$3,000 on that note.

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Now, the 1st of February, 1918, how much?

Mr. BOLLING. According to the bank's affidavit, \$4,000, on February 11; May 4, \$3,500; August 12, \$3,200.

The CHAIRMAN. No; February, now, when you say Cranor came to see you.

Mr. BOLLING. February 11, \$4,000, is the nearest date to that.

The CHAIRMAN (reading):

At that time Mr. Sands introduced Mr. Cranor to me, asking that he get certain pieces of machinery, bending rolls they were, which the Fleet Corporation were to furnish to the Downey Shipbuilding Co. in connection with the construction of vessels, and which, while promised to them, were going to be shipped to some other shipbuilding concern. He asked me to see if I could help him have these bending rolls shipped to Downey.

Did Mr. Sands ask you that?

Mr. BOLLING. No, sir; Mr. Cranor asked me that.

The CHAIRMAN. Mr. Cranor?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Did Mr. Sands introduce Mr. Cranor to you?

Mr. BOLLING. Well, he may have by card; I do not remember, sir. He may have sent his card introducing Mr. Cranor or Mr. Cranor might have told me he came from Sands. I think it likely he brought Mr. Sands's card.

The CHAIRMAN. What do you mean by this statement: "At that time Mr. Sands introduced Mr. Cranor to me, asking that he get certain pieces of machinery." Was that Mr. Sands asking that Mr. Cranor get certain pieces of machinery?

Mr. BOLLING. Mr. Chairman, when I made that statement I was very much upset, and I told—it is practically the same as this one, but this is the correct statement [referring to paper]. The newspaper men were all there, and I had no records of anything to check up on. Mr. Sands did not come with Mr. Cranor nor did he call with Cranor.

The CHAIRMAN. This statement which you gave to the representatives of the press was a statement made without an opportunity to refresh your recollection by referring to records or documents or even after reflection?

Mr. BOLLING. Absolutely, sir. I heard of this affair coming out in the papers at 2 o'clock, and I was at the office; I did not go home, and I made that statement up there without refreshing my memory or anything else.

The CHAIRMAN. Is that the first instance of anybody coming to see you with reference to construction matters?

Mr. BOLLING. The first that I remember, sir.

The CHAIRMAN. Did Mr. Cranor explain why he picked you out in this particular matter?

Mr. BOLLING. No, sir; he did not.

The CHAIRMAN. Did you telephone to Mr. Sisler?

Mr. BOLLING. I did, sir.

The CHAIRMAN. What did Mr. Sisler have to do with construction matters?

Mr. BOLLING. Mr. Sisler I knew. I knew nobody in the construction department, and Mr. Sisler did know them.

The CHAIRMAN. But you knew the commissioners, did you not?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Did you take it up with any of them?

Mr. BOLLING. No, sir; I did not.

The CHAIRMAN. Mr. Sisler was secretary, was he?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. He did not have anything more to do with the construction matter than you did, did he?

Mr. BOLLING. Well, I suppose not, sir.

The CHAIRMAN. What did you ask Mr. Sisler to do?

Mr. BOLLING. Well, I asked him what to do. He said he would look into this and let me know, or he would have it looked into.

The CHAIRMAN. Did he?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. What did he tell you later?

Mr. BOLLING. He told me later that he had looked into it; that he found that Cranor was right; that these bending rolls had been promised to them, and that they would be shipped to them.

The CHAIRMAN. Did Mr. Sisler tell you where he got that information?

Mr. BOLLING. No, sir; he did not.

The CHAIRMAN. Do you know whether or not the bending rolls after were shipped to Downey?

Mr. BOLLING. No, sir; I do not know. I have been trying to find in the files of the company—first, this was not Emergency Fleet but probably some factory, and I have not been able to find the record of those bending rolls—who they went to or where. I hope to do it though, sir.

The CHAIRMAN. Did you tell Cranor that you had nothing to do with construction matters?

Mr. BOLLING. I did, sir.

The CHAIRMAN. What did he say?

Mr. BOLLING. I could not remember, sir.

The CHAIRMAN. How was it that you undertook to assist Mr. Cranor in this particular matter?

Mr. BOLLING. Well, I simply did it as a friend—to accommodate a friend that had sent a man to me.

The CHAIRMAN. To accommodate Mr. Sands?

Mr. BOLLING. Yes, sir; that was all.

The CHAIRMAN. Is that the only instance, while you were assistant treasurer, of you being asked by friends to intercede or help out?

Mr. BOLLING. No, sir; I would not say so.

The CHAIRMAN. But the only instance up to that time?

Mr. BOLLING. Well, I should say it was one of a very few up to that time. But I have been asked to do everything on earth since I have been there, sir.

The CHAIRMAN. Have you attempted——

Mr. BOLLING (interposing). No, sir.

The CHAIRMAN. What is your practice, usually to help your friends, if you can?

Mr. BOLLING. If I can; yes, sir. I have found from four or five years' experience that the easiest way when a man comes and asks a favor of you is to tell him that you will do what you can. Very often I forget it as soon as he is out. But that gets away from an argument, and it leaves a good taste in the man's mouth, and it is

about the easiest way to wind these affairs up. I have been asked to do a great many things since I have been there, sir.

The CHAIRMAN. But, as I understood you, up to this time you had not been asked?

Mr. BOLLING. No, sir; I think up to that time there had been very few requests, partly because people did not yet know I was there, a great many of them, and I had moved around a good deal. I started in 1319 F Street, and I moved, I think, to two different floors there; and from there we moved to the Munsey Building, and I moved about five or six times in the Munsey Building in a period of four or five months.

The CHAIRMAN. You mean your office of assistant treasurer?

Mr. BOLLING. My office; yes, sir.

The CHAIRMAN. Did you know Mr. Charles Piez?

Mr. BOLLING. I do not think that I ever met Mr. Piez in my life, sir.

The CHAIRMAN. Did you know Mr. Edward N. Hurley?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. How long have you known him?

Mr. BOLLING. Just since I have been with the board, sir.

The CHAIRMAN. You never met him before?

Mr. BOLLING. No, sir; never met him prior to my going with the board.

The CHAIRMAN. Did you know a Mr. Ackerson?

Mr. BOLLING. I have since met Mr. Ackerson, but I did not know him at that time, sir.

The CHAIRMAN. How did you learn, later, that the bending rolls had been sent?

Mr. BOLLING. Mr. Sisler told me, sir.

The CHAIRMAN. Mr. Sisler looked the matter up and later told you?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. How long afterwards?

Mr. BOLLING. I should say a matter of two or three days, as I remember, sir.

The CHAIRMAN. Did you communicate that fact to Mr. Cranor?

Mr. BOLLING. Yes, sir; I did. He was in my office several times to find out about it.

The CHAIRMAN. Oh, you had more than one interview with him about it?

Mr. BOLLING. Oh, yes; two or three times he came in.

The CHAIRMAN. He came in and asked you to help him and you said you would?

Mr. BOLLING. Yes, sir; I told him I was having it looked up and would let him know.

The CHAIRMAN. Did you call up Mr. Sisler about it again?

Mr. BOLLING. That I do not remember; I may have called him and asked him what he found out.

The CHAIRMAN. Did you call up anybody else?

Mr. BOLLING. No, sir; not another soul.

The CHAIRMAN. Did you go to anybody else's office with reference to this?

Mr. BOLLING. No, sir.

The CHAIRMAN. Did you have any talk with Mr. Sands about this matter personally before you ascertained that the bending rolls had actually been sent?

Mr. BOLLING. No, sir.

The CHAIRMAN. Neither over the telephone or in your office?

Mr. BOLLING. No, sir.

The CHAIRMAN. Or in his office or anywhere else?

• Mr. BOLLING. No, sir; I never mentioned bending rolls to Mr. Sands during the whole transaction, nor do I remember ever seeing Mr. Sands or hearing from him.

The CHAIRMAN. You mean prior to your receiving the information?

Mr. BOLLING. Yes, sir; and having told Mr. Cranor. That ended him, as far as I thought, for the time being.

The CHAIRMAN. After you secured information from Mr. Sisler that the rolls had been sent, you told Mr. Cranor, you say, in your office one day?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Two or three days later, possibly?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Did you ever see him again?

Mr. BOLLING. I may have, sir—yes; I am quite sure that I did see him again.

The CHAIRMAN. Where?

Mr. BOLLING. I could not tell you, sir.

The CHAIRMAN. About what?

Mr. BOLLING. About nothing in particular; I never saw him about anything else; he never asked me to do anything else.

The CHAIRMAN. Do you know where Mr. Sands was living at that time?

Mr. BOLLING. Mr. Sands was living at that time in the Willard Hotel, Washington.

The CHAIRMAN. Did you ever visit him there?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. How often?

Mr. BOLLING. Oh, not very often, sir.

The CHAIRMAN. As often as two or three times a week?

Mr. BOLLING. No, sir; nothing like it.

The CHAIRMAN. What time of the day was it when you visited him?

Mr. BOLLING. Usually, I should say, in the evening.

The CHAIRMAN. In the evening?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. What was the purpose of your visit?

Mr. BOLLING. Well, I remember on one occasion that I was invited there—myself and wife—to dinner; we went there to dinner. There were a great many other people there; I do not remember just who they were. And then I called again after that and I may have been there several times.

The CHAIRMAN. What were you there for several times?

Mr. BOLLING. Simply socially.

The CHAIRMAN. Alone?

Mr. BOLLING. I say, I may have been; I do not remember.

The CHAIRMAN. "Alone"—you mean without Mrs. Bolling?

Mr. BOLLING. Oh, yes; that is possible. I do not think, though, that I was; I have no recollection of ever being there alone until after Sands's trouble. Then I was there once, which I will tell you about later.

The CHAIRMAN. That was in the fall of 1918?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. I am talking about before that time now. Do you know when Mr. Sands went to live at the Willard?

Mr. BOLLING. No, sir; I have not established that date.

The CHAIRMAN. Was he living there at the time of this bending-roll transaction?

Mr. BOLLING. I am quite sure he was.

The CHAIRMAN. Did you talk with him about Mr. Cranor getting the bending rolls?

Mr. BOLLING. Yes, sir; afterwards.

The CHAIRMAN. How long afterwards?

Mr. BOLLING. Well, a very short time afterwards, sir, I should say, sir. I do not remember the date.

The CHAIRMAN. Where?

Mr. BOLLING. In the Commercial National Bank in Washington.

The CHAIRMAN. You mean a short time after Mr. Sisler told you that the bending rolls had been sent?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And you informed Mr. Cranor that they had been shipped?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. What was the conversation there?

Mr. BOLLING. Mr. Sands voluntarily told me that he had made, would make, or had a fee, which I think was \$1,000, and said, "I am going to take care of you." I told him that I would accept nothing and could accept nothing that had to do with any Government contract.

He then brought up this old question of the \$600 that he had owed me; said he had not forgotten it, and that some day, when I wanted it, he would pay it. I did not get a nickel then.

I looked upon Mr. Sands as a man who was the vice president of a large bank, and who was justly indebted to me. I therefore told him that while I would be very glad for him to pay what he owed me, that under no conditions could it be in any way connected with any fees, commissions, or anything to do with Government work. And subsequently he paid me the \$600 in three installments. I can give you the dates on those, sir.

The CHAIRMAN. He told you that he had made a fee on this bending-roll business?

Mr. BOLLING. I do not remember whether he said he had made or would make.

The CHAIRMAN. But it was on the bending-roll transaction, was it?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Did you ask him how he had made anything on that?

Mr. BOLLING. No, sir; I never thought anything about it; I do not know that he said he had made; he may have said he hoped to make or would make. I do not know that he ever did make, as a matter of fact.

The CHAIRMAN. Were you not interested when he volunteered that information to know how he came to be making any money on this bending-roll transaction?

Mr. BOLLING. Well, I did not know just what Mr. Sands's relationship with the principal was. I do not know that I gave it a thought.

The CHAIRMAN. Did you ask him?

Mr. BOLLING. He might have been the Washington representative or something else.

The CHAIRMAN. Did you ask him?

Mr. BOLLING. I do not remember asking him; no, sir.

The CHAIRMAN. You knew that the man that came to see you about the bending rolls was introduced to you by Mr. Sands?

Mr. BOLLING. That was true, sir—yes, sir; or sent to me by Mr. Sands.

The CHAIRMAN. And yet when Mr. Sands told you that he had made or expected to make a fee out of the bending-roll proposition, you were not interested further to know his connection with the transaction?

Mr. BOLLING. I do not remember ever asking him; no, sir; I never asked him anything about it. I probably ought to have done so, but I did not, as I remember it.

The CHAIRMAN. What was the occasion of your being in the Commercial National Bank at the time of this conversation?

Mr. BOLLING. I carried my account with the bank, and I was in there very frequently. I do not remember just the occasion.

The CHAIRMAN. It did not have anything to do with Shipping Board business?

Mr. BOLLING. Absolutely none, sir.

The CHAIRMAN. Did you have the decision as to what banks these operating funds of the Shipping Board should be deposited in?

Mr. BOLLING. For a while—while I did not have the decision, I think that I could by suggestion have controlled them; yes, sir.

The CHAIRMAN. Did you have some carried in that bank—deposited in that bank?

Mr. BOLLING. When I took the office as assistant treasurer, there was something over \$4,000,000 in that bank, and one of the first things I did was to write to the board and recommend that other bank accounts—that was before we began doing business with the United States Treasury, and before all of the deposits went into the Treasury—and I recommended strongly that immediately other accounts be opened, because I did not think that that much money should be in a bank of that size. I have that letter in the records of the Emergency Fleet Corporation.

The CHAIRMAN. How much was there in there at the time?

Mr. BOLLING. Something over \$4,000,000 in there at the time sir.

The CHAIRMAN. How much was in that bank at the time you had the conversation about the bending rolls?

Mr. BOLLING. I would suspect that something less than \$4,000,000. I can establish that, sir; because I recommended that and my recommendation was acted on, and I opened, as I remember, in November or December—I will not be sure of that date—the first of the other accounts.

The CHAIRMAN. November or December, 1917?

Mr. BOLLING. Yes, sir; with the Federal National Bank, and then later with the District National Bank, and later with the Metropolitan National Bank, and all disbursements that I made I drew from the Commercial account, in order to reduce it gradually, and I put all of the deposits in the other three banks and let them grow. So you will find that about the time that the money was transferred to the Treasury, I think it was, around May, 1918.

The CHAIRMAN. Were you asked to deposit in any particular banks by any of the officers of those banks?

Mr. BOLLING. Yes, sir; I think I was.

The CHAIRMAN. Didn't that have something to do with your decision to reduce the amount in the Commercial National Bank?

Mr. BOLLING. No, sir; nothing whatever. I simply thought that that was too much money to be in that bank with their capital. I think their capital then was \$500,000.

(A short recess was here taken.)

The CHAIRMAN. The committee will resume.

Mr. Bolling, referring now to the conversation in the Commercial National Bank, when Mr. Sands told you that he had made or would make some money as the result of the bending roll transaction, and at which time he said he would take care of you, did he say anything at that time to indicate what Mr. Cranor had told him about the matter?

Mr. BOLLING. Nothing, sir.

The CHAIRMAN. And what he had done?

Mr. BOLLING. Nothing, sir. I don't think Mr. Cranor's name was mentioned.

The CHAIRMAN. What did you understand he was going to take care of you for?

Mr. BOLLING. The inference would be that he would give me a part of whatever he got.

The CHAIRMAN. Why?

Mr. BOLLING. I didn't see what other inference should be put upon it.

The CHAIRMAN. Why was he going to give you part of what he got?

Mr. BOLLING. Because he had sent Cranor to me and I had helped him, in order to get that, I suppose.

The CHAIRMAN. Did he tell you he knew you had helped him?

Mr. BOLLING. No, sir.

The CHAIRMAN. How did it strike you when he said that he was going to take care of you?

Mr. BOLLING. The inference in my mind was that he was going to divide and give me part of what he got—he didn't mention any amount.

The CHAIRMAN. Didn't mention any amount?

Mr. BOLLING. No, sir.

The CHAIRMAN. What was there about it that you drew that inference from this conversation?

Mr. BOLLING. Well, sir, I think the inference was very plain. I don't see what else he could have meant by "taking care of me" and that was the inference I drew.

The CHAIRMAN. Did he say he was going to take care of you because you had telephoned to Mr. Sisler, and Mr. Sisler had later told you that the bending rolls had been shipped to the Downey concern?

Mr. BOLLING. Yes, sir; he had been or would be, I don't remember which.

The CHAIRMAN. Had been or would be shipped?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. In this talk at the Commercial National Bank, had you and Mr. Sands had any conversation with reference to Mr. Cranor's visit to you?

Mr. BOLLING. None whatever, sir. I don't think I had seen Mr. Sands in the interim.

The CHAIRMAN. How long was it between the time Mr. Cranor came into your office at the instance of Mr. Sands, either bearing a letter or a card, and the talk in the Commercial National Bank, when Mr. Sands offered to take care of you?

Mr. BOLLING. A very short time, sir; but I have no way of determining that.

The CHAIRMAN. Might it have been 10 days?

Mr. BOLLING. It might have been a week or 10 days; yes, sir.

The CHAIRMAN. Might it have been about the 1st of March?

Mr. BOLLING. No, sir; not that late.

The CHAIRMAN. It was not as late as that?

Mr. BOLLING. No, sir; I think not.

The CHAIRMAN. It was about the 1st of February that Mr. Cranor first called upon you?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Had you ever seen Mr. Cranor before?

Mr. BOLLING. No, sir.

The CHAIRMAN. Had you ever talked with him on the telephone before?

Mr. BOLLING. No, sir.

The CHAIRMAN. Had you ever received a letter from him before?

Mr. BOLLING. No, sir; nor had I ever heard of him.

The CHAIRMAN. Never knew there was such a man in existence?

Mr. BOLLING. No, sir.

The CHAIRMAN. Before he came into your office?

Mr. BOLLING. No, sir.

The CHAIRMAN. When Mr. Sands talked to you in the Commercial National Bank was Mr. Cranor's name mentioned?

Mr. BOLLING. No, sir.

The CHAIRMAN. Was the Downey Shipbuilding Corporation mentioned?

Mr. BOLLING. No, sir.

The CHAIRMAN. Were bending rolls mentioned?

Mr. BOLLING. They probably were; yes, sir.

The CHAIRMAN. They probably were?

Mr. BOLLING. I can not repeat the conversation, sir. I don't remember it. But it was about the bending rolls and the company to whom they were to be shipped, and I could not swear to-day what company that was, though I think it was Downey.

The CHAIRMAN. Was any other matter in connection with the Downey Co. mentioned at that time?

Mr. BOLLING. No, sir.

The CHAIRMAN. Sure about that?

Mr. BOLLING. Absolutely, sir.

The CHAIRMAN. Do you think you had seen Mr. Sands between the time Cranor first called upon you and this talk in the Commercial National Bank?

Mr. BOLLING. No, sir; I don't think I had.

The CHAIRMAN. You don't think you had?

Mr. BOLLING. Oh, I can not say that for sure.

The CHAIRMAN. You might have?

Mr. BOLLING. I might have, but I don't think I have.

The CHAIRMAN. Now, in your statements the other day in the presence of the press at Washington, you said as follows:

Some time after that Sands told me that he had received a fee for procuring these bending rolls and offered to divide it with me.

Mr. BOLLING. Yes, sir.

The CHAIRMAN (reading):

I think the fee was \$1,000. I told Sands that under no conditions would I accept any part of it. Sands then told me that as he had never paid me any profit on building the house, I having waived the same, he would like to pay me what I thought was a fair profit for the work which I had done. I told him that \$500 I thought would be very reasonable if he wanted to pay it. Even then he did not pay all of it, giving me \$200 then and \$300 later. That is about all, sir, except that Sands left out that he still owed \$900 on the original note on that house. Mr. Sands has never given me another cent of money, except as curtailments on the note, which is now discounted in a Washington bank, and the amount due is \$900, and I have his last letter saying that he could not curtail same.

Have you got that letter?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Now, did you ever have any such conversation as that?

Mr. BOLLING. That is the substance of it, sir, but this is the correct statement [indicating paper]. These figures are wrong to start with.

The CHAIRMAN. How did you happen to get them wrong?

Mr. BOLLING. I had nothing to check up, as I explained to you. I had forgotten what the amounts were until I looked them up.

The CHAIRMAN. Did you tell him that you thought \$500 or \$600 was about a fair profit on the work that you had done?

Mr. BOLLING. No; I did not tell him that, but I knew there was a fixed amount, being a fixed amount as per the agreement or settlement of that matter.

The CHAIRMAN. Did you say at this conversation that he had never paid you any profit on the house?

Mr. BOLLING. Well, I don't know that I put it in those words, but that he had never paid me that balance on the house.

The CHAIRMAN. How did you happen to say that he told you that you had never made any profit on the house, when you gave the statement in the presence of Admiral Benson and the press the other day?

Mr. BOLLING. How did I happen to say so?

The CHAIRMAN. That he told you that he had never paid you any profit on the house?

Mr. BOLLING. He had told me that on various occasions, that he had never paid me on it, always referred to that as the money on the extras.

The CHAIRMAN. You said the other day, Mr. Bolling: "Sands then told me that he had never paid me any profit on building the house,

I having waived same, he would like to pay me what I thought was a fair profit for the work which I had done"?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Well, now, that did not take into consideration these extras; it was a profit on the transaction, wasn't it?

Mr. BOLLING. No, sir; the profit that I would have made on the house was about eaten up by the amount that I rebated to Sands on these extras. I asked Mr. Todd the other day, and I think he made only around \$900 to \$1,000, so it was the greater portion of my profit, represented by these extras. In other words, if I could not get the money for the extras which we had to pay for, naturally it came out of my profit.

The CHAIRMAN. Then there was talk about profits, was there?

Mr. BOLLING. Well, I could not say whether it was put that way by Sands or not; it referred to the house.

The CHAIRMAN. How had you happened to say that, Mr. Bolling, if there were not some discussion about the profits on the house?

Mr. BOLLING. Well, it may have been that way; it is just as if I were right here now called upon to make a statement, that is exactly the position I was in the other day; no figures or facts or anything to refer to.

The CHAIRMAN. I would like to ask you now to tell the committee what the conversation was at the Commercial National Bank a few days after Cranor called on you in your office in the Shipping Board—what the conversation was between you and Mr. Sands.

Mr. BOLLING. Yes, sir. As nearly as I can recollect it, I will tell it, sir.

The CHAIRMAN. Yes, sir.

Mr. BOLLING. Mr. Sands told me that he had or would make something in connection with the procuring of these bending rolls, and said that he would take care of me. I told him that I would take nothing. He then mentioned the fact that he had never settled this amount on the house, for profit or extras, or whatever it was, he knew that I had waived a certain amount on his house, and that he intended to pay that; that he hadn't forgotten it. He didn't pay it at the time, but he did pay it subsequently to that. I told him at the time that it could not in anyway be connected with any money that he had received in regard to procuring or in connection with Government contracts, and he paid me the money later on in three different installments.

The CHAIRMAN. Well, didn't you say the other day that he gave you \$200 then and \$300 later?

Mr. BOLLING. That is what I thought it was at that time, but I have since verified it by my check book. He gave me—I did not say then—I didn't know that he gave it to me then; I think he gave it to me later than then. On February 18, 1918, he gave me \$300, and on June 26, 1918, he gave me \$200, and on August 5, 1918, \$100, and I have no idea of where that money came from or how he got it or anything else.

The CHAIRMAN. Well, he told you that he had received or would receive some money in connection with this bending-roll transaction?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And he first offered to share that with you?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Which you absolutely refused to do?

Mr. BOLLING. I did, sir.

The CHAIRMAN. He then offered to pay you what you had waived on account of the extras?

Mr. BOLLING. That is right, sir.

The CHAIRMAN. And you said you were willing to receive it?

Mr. BOLLING. Yes, sir; I told him he could pay me what he owed me.

The CHAIRMAN. And you understood, did you not, from that conversation that the amount which he expected to pay you on account of these changes and extras was to be paid out of what he had received as a commission for getting those bending rolls?

Mr. BOLLING. No, sir; absolutely not. That is the point that I made to him, that it could not be in any way connected with any business that he had received from Government contracts. I made that point, and he clearly understood me.

The CHAIRMAN. You told him?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. You told him that?

Mr. BOLLING. Yes, sir; absolutely, sir.

The CHAIRMAN. You told Mr. Sands that you could not share in the commission which he had received in connection with the bending rolls?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And at that same conversation you told him that he could pay you \$600?

Mr. BOLLING. That he owed me.

The CHAIRMAN. That you had previously waived?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. That you had previously waived, so he didn't owe it to you, did he?

Mr. BOLLING. Except he had not accepted the waiver and had acknowledged the debt before that.

The CHAIRMAN. Previous to that you had waived your share of the \$1,200 extra?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Mr. Sands had told you that while he accepted that waiver, it was——

Mr. BOLLING. Apparently he did it just to smooth things over.

The CHAIRMAN. To satisfy his wife?

Mr. BOLLING. The feeling was very tense that night that we made the settlement.

The CHAIRMAN. But later he told you he would take care of you?

Mr. BOLLING. I would have waived it if it had at that time been \$4,000, the way I felt that night.

The CHAIRMAN. Now, Mr. Bolling, didn't you understand, having had no previous conversation with Mr. Sands about this \$600 which you waived, and which he had told you he would pay, didn't you understand when he told you he had received a commission or was to receive a commission for getting these bending rolls, and that he wanted to share that with you, did you not understand that at that time, when he was going to pay you this \$600 for charges and extras, it was to be this money which he had received as a commission, and

that it was to simply be repaid to you on account of these charges and extras, but it was really to be a share of that commission, only under the guise of paying you the charges and extras?

Mr. BOLLING. No, sir; absolutely not, sir.

The CHAIRMAN. You told him you would not share the commission?

Mr. BOLLING. Absolutely, sir.

The CHAIRMAN. Didn't he say, well, we will put it this way: I will repay you this \$600?

Mr. BOLLING. Mr. Chairman, according to that theory, I should stop Mr. Sands, immediately curtailing his note, because I have known for two years, by anonymous letters, that Sands had gotten \$40,000, and said that he got it. Why should I let him continue to curtail a note that he owes me, under your argument?

The CHAIRMAN. I am not arguing, Mr. Bolling. I am simply asking a question.

Mr. BOLLING. I mean, I do not see that at all.

The CHAIRMAN. Well, according to the same theory, why was it that later you accepted \$300, \$200, and \$100 from Mr. Sands, he having previously told you he had received a commission of \$1,000 on account of these bending rolls, and offering to divide it with you?

Mr. BOLLING. And I don't get you there, Mr. Chairman.

The CHAIRMAN. Read the question.

(Repeated by the reporter.)

Mr. BOLLING. I don't get the question, I don't get the meaning of it; simply I don't know how to answer it.

The CHAIRMAN. Very well.

Mr. BOLLING. What I mean—I meant by that, that if it were wrong for me to accept what he owed me in one instance, he still owes me on a note, if knowing that, it would not be just as wrong, is the point that I make, to even allow him to go on with his curtailments on the note which, if he didn't pay, naturally, as indorser, that I would have to pay—that is my point, sir.

The CHAIRMAN. I see.

Mr. BOLLING. And I beg your pardon.

The CHAIRMAN. Now, Mr. Bolling, you borrowed some money from Mr. Sands after the house transaction, didn't you?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. How was it that you paid back all the money that you borrowed, that he still acknowledged that he owed you \$600?

Mr. BOLLING. Well, I don't remember, sir, those transactions.

The CHAIRMAN. Don't remember that?

Mr. BOLLING. You see, this is back in 1917, I don't—as I say, I don't know whether Sands loaned me that or the Commercial National Bank loaned me.

The CHAIRMAN. You produce the stubs of your check book here to show that Mr. Sands loaned you money, and the check was made to him?

Mr. BOLLING. I say I have it in there, "Sands," I don't remember it; I did not bring these old checks over, I will send them to you.

The CHAIRMAN. Are not the stubs of your check book correct duplicates of the checks that were made out when you repaid the loan?

Mr. BOLLING. Yes, sir; it may have been done this way: That Mr. Sands may have indorsed my note or arranged for me to get it through

the Commercial Bank, I don't remember how that money was paid, or who loaned it, whether he did or the bank.

The CHAIRMAN. That is quite a good transaction, \$7,500 loan?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And the stubs of your check books show that you made the checks out to Mr. Sands?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. If the loan was made by the bank, the checks would be made out to Mr. Sands, as vice president, or as an officer of the bank, of some sort?

Mr. BOLLING. Yes, sir; I should think so.

The CHAIRMAN. But they are made out personally?

Mr. BOLLING. I think they are, from that stub there.

The CHAIRMAN. All the evidence you have here to-day to refresh your recollection is to the effect, that that loan was a personal loan?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. You drew it to Mr. Sands, in the amount of \$7,500?

Mr. BOLLING. Yes, sir; it looks like that.

The CHAIRMAN. Now, the \$600 was still owing on account of these extras at the time that loan was secured?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. From Mr. Sands?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Why, in settling up that, was not the \$600 deducted?

Mr. BOLLING. I could have used it then; I can not explain it, gentlemen.

The CHAIRMAN. You can not explain it?

Mr. BOLLING. No, sir; I don't really attempt to explain it. That loan ran along over for a period of a year and a half at the most, and Sands hadn't taken care of it. But at the same time Sands was curtailing the note, and Sands was not curtailing the note very fast, and my thought in the matter, if I had any, was to wait until he had gotten this obligation out of the way before I ever tackled him for any profit on the house.

The CHAIRMAN. That was your intention?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. All the time?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Have you got anything to show when you received this \$600?

Mr. BOLLING. Yes, sir. Well, the only thing I have is—I only have the deposit slips.

The CHAIRMAN. Have you got them?

Mr. BOLLING. Yes, sir; I have.

The CHAIRMAN. Will you produce those, please?

Mr. BOLLING (producing slips). Now, sir, all of this was not deposited in the bank. This deposit slip shows the \$200 only, that was a \$300 payment, however. Sands \$200 on June 26 and Sands \$100 on August 5. [Showing papers to chairman.]

The CHAIRMAN. You hand me a deposit slip deposited with the Commercial National Bank of Washington, D. C., for the credit of

R. W. Bolling, February 18, 1918, currency, \$200; and inserted in lead pencil—

Mr. BOLLING. I done that.

The CHAIRMAN. The name "Sands" and of "pointing to the \$200. Marked both duplicate." What is that down there [indicating]?

Mr. BOLLING. That is just a bank check, another check, Commercial.

The CHAIRMAN. "Commercial, \$166.67"?

Mr. BOLLING. That represented my salary, that check.

The CHAIRMAN. This February 18 represents the \$300 payment?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Was that made in cash?

Mr. BOLLING. I can not remember, sir, whether it was or not. I suppose that it was from this "currency."

The CHAIRMAN. You may have cashed that check and deposited \$200?

Mr. BOLLING. I may have, but I know it was \$300; and I may have just put \$200 in the bank, I can not remember whether it was cash or check.

The CHAIRMAN. The other day, when you made the statement in the presence of Admiral Benson, you said the amount was \$500?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And the documents you produce here—these deposit slips—bear out that statement, do they not?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Now, what is there that you have other than your recollection to show that the amount was \$600?

Mr. BOLLING. I remember that it was \$600 very distinctly; and then I got \$300 on the 18th of January, because this was very vividly brought—

The CHAIRMAN. 18th of January?

Mr. BOLLING. 18th of February. It was brought very vividly to my recollection about August or September—October, it was, 1918. You see, it was only six months after that, and I immediately went over everything, and at that time I remembered that that was \$300—that payment; that is the only thing I have to show that.

The CHAIRMAN. If that were so, how did you happen to say \$500 the other day, when the Admiral and the newspaper men were present?

Mr. BOLLING. Well, sir, I have not checked this thing over for a year.

The CHAIRMAN. You checked it over last August, didn't you?

Mr. BOLLING. August, 1918.

The CHAIRMAN. 1918?

Mr. BOLLING. Yes, sir; and I put all of those things in and—

The CHAIRMAN. If you were given a check in February, 1918, on what bank was it?

Mr. BOLLING. Well, I think it may have been on the Commercial; I think it would be likely to be, sir.

The CHAIRMAN. Well, if you had gotten in there a check on the Commercial National Bank—and, by the way, were you carrying an account there?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. What would be the occasion for your cashing the check of \$300 on the Commercial National Bank and then depositing \$200 at the same time?

Mr. BOLLING. I don't know; I don't remember. I don't remember if it was a check.

The CHAIRMAN. Can you say now whether it was a check of \$300, or cash \$300?

Mr. BOLLING. I can not; I don't remember whether it was or not.

The CHAIRMAN. Now, if you don't remember which it was, how can you remember it was \$300, Mr. Bolling?

Mr. BOLLING. Because I find I have two or three ways of remembering it. I have, on a voucher, on the same day, that I put \$100 to the credit of my wife's account in a different bank, in the Du Pont National Bank, of \$100, and I got a pencil memorandum in the back of my check book, "Sands, \$300, February 18, 1919."

The CHAIRMAN. Have you got that here?

Mr. BOLLING. No, sir; I have not. I did not bring it.

The CHAIRMAN. Why didn't you bring it?

Mr. BOLLING. I didn't think it amounted to anything, because I might have done that yesterday.

The CHAIRMAN. How did you happen to bring the deposit slips?

Mr. BOLLING. Because they cover this theory of it.

The CHAIRMAN. They don't cover the whole of it, do they?

Mr. BOLLING. I think so.

The CHAIRMAN. The deposit slips show \$600?

Mr. BOLLING. No, these do not; that is right, sir.

The CHAIRMAN. And your check book, you say, would show \$600?

Mr. BOLLING. Not my check book.

The CHAIRMAN. Which check book?

Mr. BOLLING. My wife's book will show in there \$100, which would make this \$600; that is right.

The CHAIRMAN. Well, Mr. Bolling, that deposit slip of February 18 shows \$366.67.

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And now, you could have very easily have deposited \$100 of that sum to your wife's account, couldn't you?

Mr. BOLLING. I don't catch the point there, Mr. Chairman.

The CHAIRMAN. You stated the reason that you knew it was \$300 was because on that date you put \$100 to the credit of your wife, in her account.

Mr. BOLLING. Yes.

The CHAIRMAN. In the Du Pont Bank?

Mr. BOLLING. Yes.

The CHAIRMAN. It might have been the \$100 out of this \$366.67, might it not?

Mr. BOLLING. It might have been, but I am quite sure it was not, sir.

The CHAIRMAN. Well, why are you so sure if you can not remember whether you got \$300 in cash or \$300 in a check, and all the documents you have got show that it was \$500, and that you only got \$200 on February 18, why are you so sure that it was \$300?

Mr. BOLLING. Well, I remember that it was three; I remember that.

The CHAIRMAN. You remember the amount was \$300?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Now, all the other payments were by check, were they not?

Mr. BOLLING. Yes, sir; the other two payments.

The CHAIRMAN. Was there any reason why this payment should not be by check, too?

Mr. BOLLING. None that I can think of.

The CHAIRMAN. Assuming that it was a check for \$300—

Mr. BOLLING. It would be very easy to establish that, sir, I should think.

The CHAIRMAN. By Mr. Sands's check?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Have you got any other records showing the state of your account at the Commercial National bank at that date?

Mr. BOLLING. Well, I have all of the original bank statements?

The CHAIRMAN. For February?

Mr. BOLLING. Yes, sir; for the entire year, that I brought up, and all the deposit slips for the entire year, with the exception of three deposit slips, and I do not believe these are important because they occur after I began to get anonymous letters, November 16, 1918, is lost—I can not find it. December 2, 1918, and December 16. Those are the only three that are missing, checking it with these statements, and those are my original duplicate deposit slips, the whole year's. I would like to go through them with somebody that you will appoint, and show what each amounts to and where it originated and what it was.

The CHAIRMAN. We will come to that a little later, Mr. Bolling; but when was this \$600 profit finally paid?

Mr. BOLLING. The final payment, sir, was August 5.

The CHAIRMAN. May I see those again, please, those deposit slips?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. The second deposit slip, "Commercial National Bank" to your credit "June 26, 1918," figure in ink "\$200" opposite is written in pencil the word "Sands." Was that a check?

Mr. BOLLING. That was a check, I think.

The CHAIRMAN. Well, you think?

Mr. BOLLING. I could not swear to it, sir, whether it was or not. May I see it a moment [same handed to Mr. Bolling]? I imagine it was a check, sir, because it comes down where the checks are listed. That is the only way I have of knowing.

The CHAIRMAN. Third, a deposit slip, the same bank, and to your credit: in ink the figures are "\$100."

Mr. BOLLING. \$100?

The CHAIRMAN. \$100.

Mr. BOLLING. Yes.

The CHAIRMAN. Opposite it is written in pencil the word "Sands." The name "Sands" on each of these slips is in your handwriting?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. You remember when you put this on there?

Mr. BOLLING. I should say about in the fall of 1918, sir.

The CHAIRMAN. The fall of 1918?

Mr. BOLLING. Yes.

The CHAIRMAN. Now, you state in this later statement that you have prepared, Mr. Bolling, you told him that you would be glad to have him pay what he owed you?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And that it could not in no way be connected with business or commissions involving Government work, and this is clearly understood?

Mr. BOLLING. That is right, sir.

The CHAIRMAN. What did he say to give you the impression that he clearly understood it?

Mr. BOLLING. Well, he could not help it, because I made it so positive that he could not have understood anything else, sir.

The CHAIRMAN. What did you say that made it so clear?

Mr. BOLLING. Well, I told him that I could not touch any commissions or anything while employed by the Government, or any commissions involving Government work.

The CHAIRMAN. And you refused to divide the commission with him?

Mr. BOLLING. Yes, sir. Or to have him divide it with me; yes, sir.

The CHAIRMAN. But he previously offered to do so?

Mr. BOLLING. Yes; or he intimated the same thing. I understood that he was to do so; yes, sir.

The CHAIRMAN. Would you call it "intimating" when he said that he wanted to divide it with you and you said "I think the fee was \$1,000, and he offered to divide it with me"?

Mr. BOLLING. I don't know that he said it in those words; as my recollection serves me, sir, he said he was going to "take care" of me; I think that is the expression that he used.

The CHAIRMAN. Did you have any talk with Mr. Meehan, of the department or bureau of investigation on this matter?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Showing him your deposit books?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Opened the safe and showed him where they were and left the room and permitted him to examine them, did you?

Mr. BOLLING. I don't remember that I said that, sir, but I gave him everything I had there.

The CHAIRMAN. Did you tell Mr. Meehan anything about this bending rolls proposition?

Mr. BOLLING. I think I did. I don't remember. I think I did so.

The CHAIRMAN. About this profit on the house for charges and extras?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. You state you mentioned that to him?

Mr. BOLLING. I think I did.

The CHAIRMAN. When was that conversation?

Mr. BOLLING. Why, in the office of the Shipping Board in Washington.

The CHAIRMAN. His office or yours?

Mr. BOLLING. That I don't remember, sir; probably mine.

The CHAIRMAN. The final payment was made in August, 1918?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. August 5?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Did you borrow any money between February 18, 1918, and August 5, 1918, from Mr. Sands?

Mr. BOLLING. Yes, sir; I borrowed \$300 from him, I have forgotten the date on that; I think it was May.

The CHAIRMAN. Will you refer to your statements which you sent me, if you have it there, and see what it is, on page 4?

Mr. BOLLING. May 21, 1918, I borrowed \$300 from Mr. Sands.

The CHAIRMAN. May 21, 1918?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Was that a personal loan?

Mr. BOLLING. That was a personal loan.

The CHAIRMAN. You gave him your note for it?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. When did you repay that?

Mr. BOLLING. I paid that July 14, 1919.

The CHAIRMAN. How did you pay it?

Mr. BOLLING. By check.

The CHAIRMAN. You got the canceled check?

Mr. BOLLING. Yes, sir [producing check].

The CHAIRMAN. Canceled check dated "Washington, D. C., July 14, 1919, No. 124. The Commercial National Bank of Washington, D. C. Pay to the order of T. K. Sands, 321," in figures, "Three hundred and twenty-one," in writing, "no one-hundred dollars." Signed, "R. W. Bolling," indorsed upon the back is "T. K. Sands," is it?

Mr. BOLLING. Yes, sir; "T. K. Sands."

The CHAIRMAN. "T. K. Sands"?

Mr. BOLLING. Yes.

The CHAIRMAN. How was it you paid him the full amount of that note when he still owed you \$100, didn't he?

Mr. BOLLING. I did not pay him that, sir, until a year afterwards. This whole matter came up in the meantime.

The CHAIRMAN. Didn't pay him until July, 1919?

Mr. BOLLING. That is right, sir.

The CHAIRMAN. How long was the note for?

Mr. BOLLING. I could not remember that, sir. It was probably on demand; I don't know.

The CHAIRMAN. He was willing to loan you money when he owed you money?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Were you willing to borrow money and give him a note when he owed you some money?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Why didn't you ask him for further payment on account?

Mr. BOLLING. I should have; I have thought of that same thing myself, sir; but I don't know why I didn't or why that transaction took place. Mr. Sands had loaned me money from time to time very often; he was my banker; I had no other banker. I have had hundreds of transactions with him personally, and in his capacity as an officer of the bank, and Sands had loaned me money even without anything.

The CHAIRMAN. Without any security?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Or without a note?

Mr. BOLLING. Yes, sir; he had.

The CHAIRMAN. Now, were you in Mr. Sands's rooms in the Willard Hotel about this time?

Mr. BOLLING. Well, sir, it is only from memory, I was in Mr. Sands's room from time to time, not very often, but I have undoubtedly been in his rooms between—sometime during the year 1918.

The CHAIRMAN. Did you ever discuss the matter of contracts with the Shipping Board with him?

Mr. BOLLING. Never.

The CHAIRMAN. Did you ever see Mr. Cranor in there?

Mr. BOLLING. I don't remember, I may have seen Mr. Cranor there.

The CHAIRMAN. About this time?

Mr. BOLLING. I have seen Mr. Cranor at the Willard Hotel. I had dinner with Mr. Cranor during this bending-roll transaction, but I think that I saw him around the Shipping Board afterwards. I might have seen him in Mr. Sands's room, and I may not; I don't remember.

The CHAIRMAN. During the bending-roll transaction you dined with Mr. Cranor at the Willard Hotel?

Mr. BOLLING. I think the night after he had asked me; he invited me to dine with him.

The CHAIRMAN. Was Mr. Sands at that dinner?

Mr. BOLLING. No, sir.

The CHAIRMAN. Did you ever discuss with Mr. Cranor the matter of a contract between the Shipping Board and the Downey Shipbuilding Co. or the Providence Engineering Co.?

Mr. BOLLING. It was never mentioned to me by Mr. Cranor; no, sir.

The CHAIRMAN. Did he tell you that the Providence Engineering Co. was endeavoring to secure a contract?

Mr. BOLLING. Never, sir.

The CHAIRMAN. Didn't talk about Shipping Board matters at all at that dinner?

Mr. BOLLING. No, sir.

The CHAIRMAN. Just you and he together?

Mr. BOLLING. Yes, sir; that is right, sir.

The CHAIRMAN. Nobody else present?

Mr. BOLLING. Nobody else present.

The CHAIRMAN. Did you ever see a Mr. Fuller at Mr. Sands's office or rooms in the Willard Hotel?

Mr. BOLLING. Not to my recollection, sir. If so, he was not in evidence. I never saw him.

The CHAIRMAN. Never saw him?

Mr. BOLLING. Never, sir.

The CHAIRMAN. Ever speak to him as you were going in there—or, as you were coming out and he was going in Mr. Sands's rooms?

Mr. BOLLING. Absolutely not, sir.

The CHAIRMAN. Never had any conversation with him at Mr. Sands's apartments at the Willard?

Mr. BOLLING. Never, sir.

The CHAIRMAN. Did you ever receive in Mr. Sands's apartment in the Willard Hotel, from Mr. Sands, a check?

Mr. BOLLING. Never, sir. Absolutely not.

The CHAIRMAN. Never did?

Mr. BOLLING. Never did any business in Mr. Sands's rooms of any kind. Any transactions, financial or any other kind, were always at the bank.

The CHAIRMAN. And all these loans that you have described, from Mr. Sands, these numerous transactions of a financial character that you have had with Mr. Sands, always took place at the bank?

Mr. BOLLING. Always, sir.

The CHAIRMAN. Never at his house?

Mr. BOLLING. With the exception of the house; that was settled at the house.

The CHAIRMAN. I mean, when he loaned you money.

Mr. BOLLING. Yes, sir; always at the bank.

The CHAIRMAN. Always at the bank?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Never in the Shipping Board office?

Mr. BOLLING. Never, sir; and Mr. Sands, to my knowledge has never been—I have no recollection of his having been in my office.

The CHAIRMAN. In the Shipping Board?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Now, did you ever hear Mr. Sands or Mr. Cranor say anything anywhere prior to August 1, 1918, anything about establishing credit for the Downey Shipbuilding Corporation or the Providence Engineering Corporation?

Mr. BOLLING. No, sir.

The CHAIRMAN. Never discussed that with you?

Mr. BOLLING. No, sir; never.

The CHAIRMAN. Did you ever meet Mr. Wallace Downey?

Mr. BOLLING. I think I have met Mr. Downey. I know him by sight; he has been pointed out to me. I think I have met him.

The CHAIRMAN. When did you first meet him?

Mr. BOLLING. Oh, it must have been sometime in 1918. I have never seen him since.

The CHAIRMAN. Do you remember where you met him?

Mr. BOLLING. I think I met him in the Shipping Board Building; probably in the hall; I don't remember who introduced him, if I met him; I don't remember the circumstances; but I remember Mr. Downey because he limps, and that is the way I remember him; otherwise, I would not know him if I would see him now—that is the only time.

The CHAIRMAN. What was the occasion of your meeting him?

Mr. BOLLING. Nothing, no particular occasion.

The CHAIRMAN. Who introduced you?

Mr. BOLLING. There were several men with him at the time; I could not tell you.

The CHAIRMAN. What time in 1918?

Mr. BOLLING. I could not say that, sir.

The CHAIRMAN. Might it have been in the spring?

Mr. BOLLING. It might have been; yes, sir.

The CHAIRMAN. Did you ever meet him in Mr. Sands's apartment at the Willard?

Mr. BOLLING. Never did, sir.

The CHAIRMAN. Sure of that?

Mr. BOLLING. Absolutely, sir.

The CHAIRMAN. Well, on these several times you visited Mr. Sands's apartment at the Willard, would not there be other gentlemen there?

Mr. BOLLING. There would, sir.

The CHAIRMAN. Was not Mr. Sands quite busy in his apartments in the Willard with people coming in to see him, in and out?

Mr. BOLLING. I think he was.

The CHAIRMAN. He seemed to be transacting business there?

Mr. BOLLING. Yes, sir; to a certain extent.

The CHAIRMAN. Did he ever transact any business with you there?

Mr. BOLLING. None, sir.

The CHAIRMAN. Did you ever talk over any business matters or financial transactions with him there?

Mr. BOLLING. We talked over one matter there: Mr. Sisler was interested or was trying to get started in a gravel concern—something at Bladensburg, Md.—and Sisler was asking me if I would not go into it, and I think he asked Sands, and we were there one night and talked over this; that is the only time I remember talking any business with Mr. Sands there.

The CHAIRMAN. When might that have been, Mr. Bolling?

Mr. BOLLING. I think that was in the spring of 1918, sir. I have not given you the date.

The CHAIRMAN. February, March, April, or May?

Mr. BOLLING. Somewhere along there, I should say that it was—it might be around March somewhere, around March. I don't know. I could not tell you the date.

The CHAIRMAN. Did you, Mr. Sisler, Mr. Cranor, and Mr. Sands, in Mr. Sands's apartment at the Willard Hotel, or anywhere else in Washington or elsewhere, ever have a conference or a talk or conversation which resulted in an agreement or an understanding that you and Mr. Sisler, together or individually, were to use your influence to secure a contract for the Downey Shipbuilding Corporation or the Providence Engineering Corporation with the Shipping Board or Emergency Fleet Corporation whereby you were to share in a commission or a bonus or a gift or a bribe of \$40,000?

Mr. BOLLING. Absolutely not.

The CHAIRMAN. When first did you hear anything about that?

Mr. BOLLING. When it was mentioned in anonymous letters, coupled with a threat that my name would be brought into it.

The CHAIRMAN. Did you receive the anonymous letter?

Mr. BOLLING. The first letter went to Mr. Tumulty; the second letter went to Mr. McAdoo.

The CHAIRMAN. When?

Mr. BOLLING. I should say around—the first letter around October 1, 1918; and the second one I have is October 7, 1918.

The CHAIRMAN. Where did you get the second anonymous letter?

Mr. BOLLING. This letter was sent to me by Mr. McAdoo.

The CHAIRMAN. Mr. William G. McAdoo?

Mr. BOLLING. Not directly to me; it was sent to my brother, and he delivered it to me.

The CHAIRMAN. Who was your brother?

Mr. BOLLING. Mr. R. E. Bolling.

The CHAIRMAN. What does he do?

Mr. BOLLING. He is president now of the Commercial National Bank.

The CHAIRMAN. In Washington?

Mr. BOLLING. In Washington; yes, sir.

The CHAIRMAN. Was he an officer of the bank when Mr. Sands was vice president of it?

Mr. BOLLING. No, sir; he came in after Mr. Sands had left the bank.

The CHAIRMAN. Was he a director or stockholder in it?

Mr. BOLLING. No, sir; not interested in it.

The CHAIRMAN. When did he come into it?

Mr. BOLLING. I can't say; I can get that date for you, sir, exactly; I think around, I should say, November 1, 1918, on a guess; that is pretty close to it.

The CHAIRMAN. Your brother handed you that letter?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And told you that Mr. McAdoo had given it to him?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. May I see it, please?

Mr. BOLLING. Yes, sir [handing same to chairman].

The CHAIRMAN. Do you know whether Mr. McAdoo ever saw this letter?

Mr. BOLLING. I assume that he did, sir. I don't know whether that letter went registered or not, it looks as if it might have; I see no registry mark on it; it has 12 or 14 cents stamps on it.

The CHAIRMAN. Do you know how an anonymous letter could have been registered without ascertaining who sent it?

Mr. BOLLING. No, sir; I do not.

The CHAIRMAN. It might have been sent by special delivery?

Mr. BOLLING. Yes, sir; I see there is no registry on it to show.

The CHAIRMAN. When was that letter turned over to you by your brother?

Mr. BOLLING. I went to Europe on November 14, 1918, and that letter was turned over upon my return, about the middle of February, 1919, but I had previously been given one by Mr. Tumulty.

The CHAIRMAN. Why is that?

Mr. BOLLING. That letter I tore up, unfortunately. It was a type-written letter, not signed; it was sent to Mr. Tumulty, and he called me up and I went over to see him and he threw the letter on the table and said, "Read that." I read it; I told him there was no truth in it, and I asked him what I would do about it, and he said: "I would tear it up and forget it." So I tore the letter up. He said: "Well, I get a lot of anonymous letters, and I usually tear them up, because I pay no attention to anonymous letters." But after I went down to the office, thinking about it, I thought I would go to the Department of Justice with it, so I went there and saw the Assistant Attorney General, and I told him about the letter, and he said that it was very unfortunate that I had torn it up; and I told him what the letter contained.

The CHAIRMAN. Along the same lines?

Mr. BOLLING. Along exactly the same lines; yes, sir.

The CHAIRMAN. Was it written on any particular letterhead?

Mr. BOLLING. It was written on a very cheap, common piece of paper, and written on a typewriter and not signed; of course, just typewrote.

The CHAIRMAN. What was the post mark?

Mr. BOLLING. No post mark. It was brought to the White House, so Mr. Tumulty told me, by an old man, but by the time he got it this fellow had gotten away. He tried to catch him, but he was not quick enough, he could not get him, but upon inquiry from the guards there, they found this old fellow had brought it up there.

The CHAIRMAN. What was the occasion of your going to Europe?

Mr. BOLLING. I went over with Mr. Edward M. Hurley.

The CHAIRMAN. In connection with the peace conference?

Mr. BOLLING. No, no; in connection with helping Mr. Hurley out with his work. Yes; he went over at the time of the peace conference.

The CHAIRMAN. You were there while the peace conference was on?

Mr. BOLLING. A part of it; yes, sir.

The CHAIRMAN. Mr. Hurley was a shipping expert or something of that nature?

Mr. BOLLING. He was the chairman of the board.

The CHAIRMAN. Yes; but in the peace conference was he—

Mr. BOLLING. He had several shipping matters to attend to there.

The CHAIRMAN. What were you doing, what were you helping with?

Mr. BOLLING. I was attending to all of his disbursements, everything for the party.

The CHAIRMAN. What party?

Mr. BOLLING. Mr. Hurley took Mr. Barbour, who was his secretary.

The CHAIRMAN. Who?

Mr. BOLLING. Mr. Barbour, his secretary, and Mr. Bailey, and I think that is all, and Mr. Hurley, and later Mr. Robinson came over, who was afterwards a commissioner in the Shipping Board.

The CHAIRMAN. Where did you go in Europe?

Mr. BOLLING. I went to London, stayed one day and then went to Paris and stayed there the rest of the time.

The CHAIRMAN. Where did Mr. Hurley go, if you know?

Mr. BOLLING. Mr. Hurley went to London and Paris and then went up to a place called Treves, at the time of the arrangement for the German tonnage to bring the troops back.

The CHAIRMAN. It was in connection with Shipping Board business and matters, Mr. Hurley became one of the advisers to the peace committee, as you understood it?

Mr. BOLLING. I understood it that way.

The CHAIRMAN. Did he come back with you?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Who acted as assistant treasurer in your absence?

Mr. BOLLING. Mr. Luckett, who is assistant treasurer. He is assistant treasurer now in charge of the Division of Construction.

The CHAIRMAN. Have you ever talked with Mr. McAdoo about this letter?

Mr. BOLLING. I never have.

The CHAIRMAN. Never have?

Mr. BOLLING. I have never seen him since I got that letter.

The CHAIRMAN. Since February 7, 1918, you have never seen or talked with Mr. McAdoo?

Mr. BOLLING. Not in connection with that; no, sir. I have never mentioned that to Mr. McAdoo.

The CHAIRMAN. Has he ever mentioned it to you?

Mr. BOLLING. No, sir; there was no conversation on the subject. I have not seen Mr. McAdoo.

The CHAIRMAN. Who is this assistant attorney general that you spoke to?

Mr. BOLLING. Mr. Thompson—Mr. Huston Thompson.

The CHAIRMAN. Is he now on the Federal Trade Commission?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Chairman of the board?

Mr. BOLLING. I think not; he is a member of it—vice chairman, that is what he is.

The CHAIRMAN. How long have you had this letter?

Mr. BOLLING. I have had it since February, 1919.

The CHAIRMAN. Since February, 1919?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Since you have had the letter, have you talked with Mr. McAdoo?

Mr. BOLLING. No, sir; I have never mentioned it to Mr. McAdoo.

The CHAIRMAN. No, no; I mean since you have had the letter, have you talked with Mr. McAdoo about anything? Have you met him or seen him since February, 1919?

Mr. BOLLING. I think I must have seen him once, probably, or twice since that; yes, sir.

The CHAIRMAN. Was this letter ever turned over to the Department of Justice?

Mr. BOLLING. I showed that letter to Mr. Huston Thompson?

The CHAIRMAN. This was, of course, some time after you had told him about the one that you destroyed?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Did he take it?

Mr. BOLLING. He took it and read it; yes, sir.

The CHAIRMAN. Did you leave it with him?

Mr. BOLLING. At that time he had left the Department of Justice.

The CHAIRMAN. I mean have you shown this letter to any official of the Department of Justice, Mr. Bolling?

Mr. BOLLING. No, sir; I don't think they have seen that letter.

The CHAIRMAN. And you have made no effort to trace or have traced the origin of this letter?

Mr. BOLLING. No, sir.

The CHAIRMAN. It is a difficult matter to trace anonymous letters?

Mr. BOLLING. It is.

The CHAIRMAN. It has been done, though, hasn't it?

Mr. BOLLING. I expect it has, sir.

The CHAIRMAN. It can not be done unless an effort is made?

Mr. BOLLING. Yes, sir. That letter, of course, was about three months old when I got it. It was October 7, and I got it in February.

The CHAIRMAN. Do you know when Mr. McAdoo gave it to your brother?

Mr. BOLLING. I don't, sir; but I can establish that. I think it was mailed to my brother with a letter.

The CHAIRMAN. From Mr. McAdoo?

Mr. BOLLING. I think so; I am not sure; I would not swear to that, sir.

The CHAIRMAN. Did your brother tell you why Mr. McAdoo sent it to him rather than to you?

Mr. BOLLING. Well, I was away at the time, sir.

The CHAIRMAN. You were in Europe?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. I see. You have heard about this anonymous letter—is that all you have heard about it?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. I think we will have it read into the record.

Mr. BOLLING. If you can read part of it, sir, I can not make any sense of it; that is, right here [indicating].

The CHAIRMAN (reading):

HOTEL McALPIN,
Broadway at 34th Street, New York City.

L. M. Boomer

Managing Director.

Hon W G McAdoo

DEAR SIR: Ask Bowling of the Shipping Board about that Forty Thousand Dollars he received from the Doling Ship Building Company—of which a record is in the Book of the Comercial Bank in D C the Bank Examiners are in their now Mr Sands has been indited and if he has to tell he will not spare anyone. It wont look so good in print Mr. Wilson Brother in Law mixed up in a Scandle use your own judement about this it look the comptroler of curnesy want to have same scandle. If so ask Williams about his cotten deal Last week Send for the banks book and see for yourself. It has been Im-poseable to see you.

I am realy and old

FREIEND M.

The CHAIRMAN. On the envelope appears the postmark "October 7, 2 p. m., G. P. O., 1918," containing two 5-cent postage stamps and one 3-cent postage stamp. "Hotel McAlpin, Broadway at Thirty-fourth Street, New York City." Addressed "Hon. William G. McAdoo, Sectreary of U S Treasurer, Washington, D. C."

Written obliquely in the left-hand margin of the envelope is the word "Personal." Figures "99-11" in lead pencil. Postmarked "Washington, October 7, 11.30 p. m., D. C., 1918." With a clock stamp, "October 8th," the time being illegible, the lead-pencil figure "4" on the back of the envelope.

You say this is the second?

Mr. BOLLING. That is the second anonymous letter.

The CHAIRMAN. The second anonymous letter?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Is there anything, as you recall it, about the first letter, its language or phraseology different, though it were in type-writing, which would indicate whether both were written by the same person?

Mr. BOLLING. It was right along the same line, except that Mr. Williams was not mentioned. I don't think that the other was misspelled as this one is.

The CHAIRMAN. Have you ever investigated to see who might have sent that letter?

Mr. BOLLING. No, sir; I have not.

The CHAIRMAN. Do you know of anybody's handwriting it resembles?

Mr. BOLLING. No, sir.

The CHAIRMAN. Did Mr. Sands ever pay you \$1,800, or any such sum as that, in connection with any transaction of any nature whatever relating to a shipbuilding contract of the Providence Engineering Corporation or the Downey Shipbuilding Corporation?

Mr. BOLLING. Absolutely not.

The CHAIRMAN. Is that the exact letter that you wrote to Mr. Sands [indicating]?

Mr. BOLLING. Yes, sir; I have a copy of this.

The CHAIRMAN. This is the original?

Mr. BOLLING. I say I have a copy of it here.

The CHAIRMAN. No; I am asking you if that is the original letter that you sent, Mr. Bolling?

Mr. BOLLING. Yes, sir; and here is a copy of it.

The CHAIRMAN. I don't care anything about the copies when we have the original. This was dated October 18, 1918.

"Dear Mr. Sands." You needn't put this letter in, as it has already been put in our record; and, Mr. Bolling, if you will follow along and see if you remember it [reading same].

This is signed "R. W. B.—E. J. F." "E. J. F." being your stenographer?

Mr. BOLLING. My stenographer; yes, sir.

The CHAIRMAN. What was the occasion of your writing that letter to him?

Mr. BOLLING. Why, Mr. Sands importuned me to help him in this indictment that was coming up—wanted me to go to the President about it. I told him that I would not go to the President, that I could not go to the President, that it would do him no good, and that the President would not interfere, and if I was in his fix myself the President would not interfere; and unless, and fearing that he would not understand it, I put it in writing. Mrs. Sands called me up on the phone time and time again and asked me to intercede for Mr. Sands for her, and I would have been very glad to do anything that I could for Mr. Sands, but I would not do that, and I did not.

The CHAIRMAN. When did he ask you to do this?

Mr. BOLLING. I should say, sir, all the way from October 1—around October 1, probably a little bit before, until that date.

The CHAIRMAN. To October 18?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. This reference to a talk last night, "When you desired to have me intervene in your behalf"?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Did you have a talk on the night of October 17, 1918?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Where?

Mr. BOLLING. I think in Mr. Sands's rooms; Mr. Sands asked me to come down there and see him; Mr. Sands called me up on the phone and asked me to come down there, that he wanted to see me, so I went down, and this is what he wanted to see me about.

The CHAIRMAN. Had he been indicted at that time?

Mr. BOLLING. No, sir; I think not.

The CHAIRMAN. The 18th of October?

Mr. BOLLING. I don't know when the indictment came out; I think about that time—shortly thereafter it came out.

The CHAIRMAN. Was not he, as a matter of fact, indicted in September?

Mr. BOLLING. Well, he may have been, but I don't think it had come out. I didn't gather from him that it had. It might have, but I don't think so.

The CHAIRMAN. Did you ever see anybody in his behalf?

Mr. BOLLING. No—well, I did; yes, sir; one man.

The CHAIRMAN. Whom?

Mr. BOLLING. Sands came to see me, I can not give you the date exactly, but around the 1st of October, I believe; I can determine that date probably, about September 28 or 29, at my home, the first that I had heard of his trouble, and he was almost crazy, in mental agony, and asked me if I would go with him and go over and see Senator Owen. I told him I didn't even know Senator Owen. Well, he said, "I want you to go over there, they are just persecuting me down there in the bank, the bank examiner, and hear what I have got to say to Owen," and I went over and listened for about an hour and that is about all that I did.

The CHAIRMAN. Did you see Senator Owen?

Mr. BOLLING. Yes, sir; I did.

The CHAIRMAN. Where?

Mr. BOLLING. In his apartment in Washington.

The CHAIRMAN. Where?

Mr. BOLLING. I can not remember the name of the building. It is the—well, it is on Columbia Road, near Nineteenth, put it down—the Altamont, at the time.

The CHAIRMAN. What did you ask him to do?

Mr. BOLLING. I did not ask him a thing, Sands recited his story to him at that time.

The CHAIRMAN. You just stood there and listened to it?

Mr. BOLLING. I listened to the story.

The CHAIRMAN. Were you introduced to the Senator?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. What did the Senator say?

Mr. BOLLING. Well, the Senator listened and said—he seemed to be very sympathetic, I don't know that he promised to do anything. That is the only thing that I ever did for Mr. Sands, and I absolutely thought that morning—I thought he would go crazy if I didn't go with him, he was in mental agony.

The CHAIRMAN. What did he tell you was the trouble?

Mr. BOLLING. Well, he told me that he had been persecuted by the bank examiner, and that it was not confined to him, that there were several other people that complained, and that he wanted me to hear the story.

The CHAIRMAN. What was the story?

Mr. BOLLING. Well, really, Sands just went off berating the bank examiners—there was nothing about a charge, the charge did not come out at all—to Senator Owen—but his whole argument was that these men did not like him personally, and that he had friction with

them and that they had almost come to blows in the Comptroller of Currency's office, and that they had it in for him and that he was an innocent man and was being persecuted. That is about the gist of the argument.

The CHAIRMAN. Now, what did he tell you on the night of October 17, when his wife telephoned you to call?

Mr. BOLLING. That he wanted me to go to the President.

The CHAIRMAN. For what?

Mr. BOLLING. To stop this indictment; that is the reason I didn't think it was out at that time, because it could not have been stopped.

The CHAIRMAN. What did he say?

Mr. BOLLING. Well, he asked me to go, and his wife asked me, and she said that the President could fix this thing; stop it. I told them that if he could, that he would not; that I knew him too well; that he would not do it for me if I was in the same fix. After that Sands did not threaten me; I would not say that he did in any way, shape, or form, but he intimated or said that my name might become connected in some way with it so it might be very unpleasant.

The CHAIRMAN. Well, how long after that evening of October 17, 1918, was it that Mr. Sands intimated to you that something unpleasant might come?

Mr. BOLLING. Oh, I think very, very shortly thereafter; it might have been even before that.

The CHAIRMAN. You think it may be before?

Mr. BOLLING. It may have been even before—no; it was after; it was after.

The CHAIRMAN. It was after?

Mr. BOLLING. Yes.

The CHAIRMAN. Was it, then, after you wrote him this letter he besought your help?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And asked you to intercede with the President?

Mr. BOLLING. Yes, sir; on several occasions.

The CHAIRMAN. How many times prior to October 17, 1918, had he asked you to help him with the President?

Mr. BOLLING. Oh, I should say, three or four times; he had had his wife call me at my home.

The CHAIRMAN. Well, did you even mention this matter to the President?

Mr. BOLLING. No, sir; I did not, not at that time.

The CHAIRMAN. Or to anybody of the President's family?

Mr. BOLLING. No, sir; not at that time.

The CHAIRMAN. Have you since?

Mr. BOLLING. Since the thing has come out in the papers I have, sir.

The CHAIRMAN. But I mean you haven't mentioned it in the way of assisting him?

Mr. BOLLING. No; the first that they heard of it, sir—and I wish it very distinctly understood—was Sunday, last Sunday week.

The CHAIRMAN. Now, you knew from the anonymous letters and otherwise that this story had been going the rounds; didn't you?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. How long have you known—that is, how long ago was it that you first heard that this story was being circulated and whispered about, pointing toward you?

Mr. BOLLING. You mean, referring to the anonymous letter now?

The CHAIRMAN. No, sir.

Mr. BOLLING. You mean that the story actually came out about it?

The CHAIRMAN. No; I mean when was it that you first knew or heard that anybody charged you with participating in a commission or a gift or a bribe in connection with a contract?

Mr. BOLLING. I should say around June of this year, sir.

The CHAIRMAN. June of this year?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. That was the first that you had heard of it?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. When were you appointed treasurer?

Mr. BOLLING. I was appointed treasurer May 1.

The CHAIRMAN. May 1?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Had you not heard of this before you were appointed treasurer?

Mr. BOLLING. Not that the story had come out in regard to it; of course I knew the story.

The CHAIRMAN. What I want to know, Mr. Bolling, is: When did you first learn that there were any rumors or whispers or stories?

Mr. BOLLING. Just in May or June.

The CHAIRMAN. Well, didn't you know about it before you were appointed treasurer?

Mr. BOLLING. Well, I did not—yes; I knew about it myself.

The CHAIRMAN. When did you first learn about it?

Mr. BOLLING. I didn't know about the rumors then; no, sir; I did not; when I was appointed treasurer I had not heard a word of it.

The CHAIRMAN. Hadn't heard a word of it?

Mr. BOLLING. No, sir; not up to May 1, that I know.

The CHAIRMAN. Well, what had you heard about it outside of the anonymous letters?

Mr. BOLLING. Nothing.

The CHAIRMAN. Not a thing?

Mr. BOLLING. No, sir.

The CHAIRMAN. Didn't you know that Mr. Sands had made a charge against you?

Mr. BOLLING. No, sir.

The CHAIRMAN. Prior to your being appointed treasurer?

Mr. BOLLING. No, sir; not until after May 1.

The CHAIRMAN. From whom did you first hear it?

Mr. BOLLING. Now, I think, sir—I think Mr. Meehan told me; I think he was the first man to tell me about it.

The CHAIRMAN. Was that the occasion when you turned over all your papers and books to Mr. Meehan?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Now, did Mr. Sands ever threaten you, to involve you in the Downey shipbuilding matter?

Mr. BOLLING. No, sir.

The CHAIRMAN. Did he ever threaten to involve you in anything?

Mr. BOLLING. No, sir; he did not threaten me at all. He said that it might be unpleasant because I might become involved in it, intimated.

The CHAIRMAN. In what; become involved in what?

Mr. BOLLING. If his trial went on, that my name might be brought into it.

The CHAIRMAN. Into his trial?

Mr. BOLLING. Yes, sir; into the bank trouble.

The CHAIRMAN. In the offense for which he would be tried?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. When did he say that?

Mr. BOLLING. That was around the time that I wrote him this letter, sir.

The CHAIRMAN. Do you know a Mr. New?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Is he with the Shipping Board or Fleet Corporation?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. In what capacity?

Mr. BOLLING. He is assistant comptroller now; I think he has charge of the credit department.

The CHAIRMAN. How long have you known him?

Mr. BOLLING. I have known him, I have known Mr. New about a year, I should say. I have known him now since the Emergency Fleet was moved from Philadelphia to Washington; I didn't know him prior to that.

The CHAIRMAN. The committee will recess here for luncheon, Mr. Bolling; you will be back with your records at 2 o'clock.

(Recess until 2 p. m.)

AFTER RECESS.

TESTIMONY OF MR. RICHARD W. BOLLING—Resumed.

The CHAIRMAN. The committee will resume. I hand you, Mr. Bolling, a photostat copy of a statement in affidavit form, not signed, and ask you if you have ever seen that document, or one like it?

Mr. BOLLING. I think I have seen one like it, sir.

The CHAIRMAN. Who showed that to you?

Mr. BOLLING. Mr. Meehan.

The CHAIRMAN. When?

Mr. BOLLING. Around May or June of this year, sir.

The CHAIRMAN. That was when he came and made the examination of your books and papers?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. How long had you known Mr. Cranor?

Mr. BOLLING. Since February, 1917, I would say, sir; 1918, I mean.

The CHAIRMAN. And how long had you known Mr. Sisler?

Mr. BOLLING. Mr. Sisler, since probably September, 1917.

The CHAIRMAN. Did you ever have any understanding or agreement with Mr. Sands in connection with the division or apportionment or payment or the distribution of any sum of money to be paid by the Downey Shipbuilding Corporation or the Providence Engineering Corporation, as commission or bribe in connection with the contract?

Mr. BOLLING. Neither with those, sir, nor with any other.

The CHAIRMAN. I was asking you when you first heard this story. You say that it was in June of this year, after you had been appointed treasurer?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And from whom did you hear it first?

Mr. BOLLING. I think Mr. Meehan first.

The CHAIRMAN. Well, had you talked with Mr. Tweedale about it before?

Mr. BOLLING. I had told Mr. Tweedale of these letters, all of that before; yes, sir.

The CHAIRMAN. About these anonymous letters?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Well, did you tell him also about Mr. Sands offering to divide this commission for getting the bending rolls with you?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And about the house transaction?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And all of your dealings with Sands?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Who next did you tell about it?

Mr. BOLLING. Admiral Benson.

The CHAIRMAN. Did you voluntarily seek an interview with him for the purpose?

Mr. BOLLING. I did, sir.

The CHAIRMAN. When was that?

Mr. BOLLING. Shortly after the admiral came with the board, sir.

The CHAIRMAN. Had you been appointed treasurer?

Mr. BOLLING. No, sir; not at that time.

The CHAIRMAN. Since you have been appointed treasurer, and since you have told the admiral and Mr. Tweedale about the circumstances of Mr. Sands offering to share this commission with you, have you still heard these stories and rumors going around?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And has anybody else been to see you about the matter besides Mr. Meehan and besides what you told Mr. Tweedale and Admiral Benson?

Mr. BOLLING. Nobody else, sir, that I can think of.

The CHAIRMAN. Did Mr. Houston Thompson come to see you again?

Mr. BOLLING. No, sir.

The CHAIRMAN. You told him about the anonymous letter shortly after you heard of it yourself?

Mr. BOLLING. After; yes, sir.

The CHAIRMAN. Did any other agent of the Department of Justice come to see you about it?

Mr. BOLLING. No, sir.

The CHAIRMAN. From whom else did you hear that these stories were going around, that this whispering was going on about this charge against you?

Mr. BOLLING. Oh, two or three people mentioned it or intimated that there was something, and that supposedly I knew about it and they knew about it.

The CHAIRMAN. Who might they be?

Mr. BOLLING. I think Mr. Wren is one, who was in the ship sales division; probably Mr.—I think Mr. Laue mentioned it to me.

The CHAIRMAN. Did you ever ask Admiral Benson to have a thorough investigation of this matter made and the results announced?

Mr. BOLLING. I do not think I put it to him in those words, sir; but that is the object that I had in going to the admiral, so that he might make an investigation.

The CHAIRMAN. Well, was there an investigation made?

Mr. BOLLING. I understand that there was, sir.

The CHAIRMAN. Nobody else talked with you about it except Mr. Meehan?

Mr. BOLLING. No, sir.

The CHAIRMAN. Did you ever talk with Mr. Tweedale about it again?

Mr. BOLLING. Oh, yes; I talked to him several times about it.

The CHAIRMAN. What would be the occasion of your talking with him about it several times, after you had told him the whole story?

Mr. BOLLING. Well, this affidavit had been made since.

The CHAIRMAN. The Sands statement?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Then you went and talked with Mr. Tweedale again?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And did you remember any new incidents in connection with the matter, at which you told him at your subsequent interviews, that you did not tell him at the first?

Mr. BOLLING. No, sir.

The CHAIRMAN. Did you talk with the admiral about it again?

Mr. BOLLING. I only talked to the admiral that once, I think, sir.

The CHAIRMAN. On this occasion when you made your statement in the presence of the admiral and various members of the press, some member of the press there said:

It has been stated that because of your connection with the President, they centered a large part of the attack on you. It has been rumored quite freely, almost from the beginning of this committee, that because of your connection with the President they centered the attack on you.

And you replied:

Apparently they have. It would seem so. I think that the fair and just thing to do would have been to investigate, and then make the things public.

Did you say that?

Mr. BOLLING. I expect I did, sir.

The CHAIRMAN. Well, now, what did you mean that the attack had been centered upon you?

Mr. BOLLING. Well, it had come out that day, this whole thing in headlines, and of course it was not a very pleasant thing.

The CHAIRMAN. You were considerably agitated?

Mr. BOLLING. I was, sir.

The CHAIRMAN. About that, at the publicity?

Mr. BOLLING. I was, sir.

The CHAIRMAN. You felt that the committee was making a direct attack upon you?

Mr. BOLLING. No, sir; I did not; not the committee, sir.

The CHAIRMAN. Whom did you mean had centered the attack?

Mr. BOLLING. Well I thought that in investigating it I could have thrown a great deal of light on the subject had they asked me, or had the investigators asked me; and of course they did not.

The CHAIRMAN. Well, you mean Mr. Fisher?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Representing the committee?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. You did not know, of course, whether Mr. Fisher had talked with Mr. Meehan?

Mr. BOLLING. No, sir.

The CHAIRMAN. Or Mr. Tweedale?

Mr. BOLLING. Well, I did know that he had talked to Mr. Tweedale.

The CHAIRMAN. Had it occurred to you that in investigating a serious charge, involving an official of the Shipping Board, perhaps the thing to do would be to hear the stories and the supporting evidence of other people who knew, first, before asking the man involved about it?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Did that occur to you?

Mr. BOLLING. Yes; it occurs to me now, sir, and I want the investigation made as thorough as possible.

The CHAIRMAN. You are still in the same frame of mind as when you sent the telegram to me asking the committee to investigate?

Mr. BOLLING. I am, sir.

The CHAIRMAN. You want this investigation made by the committee thoroughly, publicly, and the facts brought out?

Mr. BOLLING. Absolutely, sir.

The CHAIRMAN. I may have asked you this question before, Mr. Bolling: Did you ever meet Mr. Sisler in Mr. Sands's rooms?

Mr. BOLLING. I think once.

The CHAIRMAN. Do you know what was the occasion of his being there?

Mr. BOLLING. The occasion for being there was the gravel company that Mr. Sisler was promoting or starting at Bladensburg, Md., for the purpose of dredging gravel, and he wanted to get this company financed. Mr. Sisler wanted me to go into it, but I was unable to do it; I did not have the money to do it. I think it was a very good thing.

The CHAIRMAN. Did you ever hear any other matter discussed?

Mr. BOLLING. No, sir.

The CHAIRMAN. And that is the only time you ever saw Mr. Sisler there?

Mr. BOLLING. That is the only time that I ever saw Mr. Sisler in Mr. Sands's rooms.

The CHAIRMAN. Well, did you ever see Mr. Sisler at the Commercial National Bank?

Mr. BOLLING. No, sir.

The CHAIRMAN. Did you ever see him anywhere else, talking with Mr. Sands?

Mr. BOLLING. No, sir.

The CHAIRMAN. Did Mr. McAdoo ever tell you that he had heard from Mr. Sands in connection with his indictment?

Mr. BOLLING. No, sir.

The CHAIRMAN. In your capacity as treasurer of the Shipping Board, you had occasion to sign checks on account of payments to the Providence Engineering Corporation or the Downey Shipbuilding Corporation?

Mr. BOLLING. No, sir.

The CHAIRMAN. Who does that?

Mr. BOLLING. We have two assistant treasurers. Mr. H. M. Luckett at that time was assistant treasurer in charge of the construction, and I was in charge of the operations, and unless some financial transaction arising from the operation of that occurred, I would never have signed a check to the Providence or the Downey people.

The CHAIRMAN. Well, have you since that time?

Mr. BOLLING. None that I recall, sir.

The CHAIRMAN. Have you ever been called into conference by Mr. New or anybody in the credit department with reference to financing the Downey concern?

Mr. BOLLING. No, sir.

The CHAIRMAN. Did Mr. Sands send anybody else to you after that?

Mr. BOLLING. He once sent a man to me, I do not know whether it was before or after that, who as I remember was a banker from Pittsburgh, and it was during the Liberty loan drive, and this man wanted to procure an aeroplane to exhibit in his bank; and Sands sent him down with his card to know if I could get him the aeroplane.

The CHAIRMAN. Wanted to know if you could what?

Mr. BOLLING. If I could put him in touch with somebody who could give him an aeroplane to exhibit; and I sent him to the War Department. That is all I did with that. I do not know whether he ever got the aeroplane.

The CHAIRMAN. Did you state in the presence of Admiral Benson to the members of the press that "Mr. Sands used to send a great many people to me"?

Mr. BOLLING. I may have.

The CHAIRMAN. "I remember once one fellow in Pittsburgh, a national bank man, wanted an aeroplane to exhibit on a Liberty loan. Sands sent him here to inquire. I don't care what Sands wanted, he would call on me to help him out."

Mr. BOLLING. Yes; Sands would—I can not recall anybody else that he ever sent. Those are the only two that I can recall now, sir.

The CHAIRMAN. Well, how did you happen to say he used to send a great many to you at time?

Mr. BOLLING. Well, he probably did send other people to me, but I can not remember them now.

The CHAIRMAN. Do you recall his sending anybody else to you—

Mr. BOLLING. No, sir.

The CHAIRMAN. Just a moment until I finish my question.

Mr. BOLLING. I beg your pardon.

The CHAIRMAN. Do you recall his sending anybody else to you as a result of which you communicated with Mr. Sisler or any other Shipping Board officer or employee, by way of assisting the person whom Sands had sent to see you?

Mr. BOLLING. No, sir; absolutely not.

The CHAIRMAN. You do not recall that?

Mr. BOLLING. No, sir.

The CHAIRMAN. What was the particular reason, on October 18, 1918, that you put in writing your desire not to intercede with the President or anybody else, to help Mr. Sands out of his difficulty?

Mr. BOLLING. Simply because I had received these anonymous letters before, threatening me.

The CHAIRMAN. Threatening you?

Mr. BOLLING. Well, this one did. I had not received the other one. I received one before.

The CHAIRMAN. I thought you had received the one from Mr. Tumulty?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. What was there about that anonymous letter which Mr. Tumulty showed you and which you destroyed which prompted you a few days afterwards to write this letter to Mr. Sands?

Mr. BOLLING. Well, I think it would be a very natural thing.

The CHAIRMAN. Why?

Mr. BOLLING. Simply because my name was mentioned in connection with this thing and that I wanted to go on record and have a record of going on record.

The CHAIRMAN. Your name was mentioned in connection with what thing?

Mr. BOLLING. This Downey contract.

The CHAIRMAN. Well, did you think Sands was connected with the Downey contract?

Mr. BOLLING. No; but it said that I was.

The CHAIRMAN. Yes; it said you were; and you knew you were not.

Mr. BOLLING. I knew I was not.

The CHAIRMAN. Why did you write Sands that you would not help him out of his trouble, as a result of connecting you with the Downey Corporation?

Mr. BOLLING. I had already told Sands that I would not help him out, sir.

The CHAIRMAN. Yes; but what was the reason that you put it in writing, Mr. Bolling?

Mr. BOLLING. Well, to have a record of it, sir.

The CHAIRMAN. Just to have a record of it?

Mr. BOLLING. That is it, sir.

The CHAIRMAN. Why did you want to have a record of it?

Mr. BOLLING. Well, for every reason I think it was well to have a record, sir.

The CHAIRMAN. That was the reason?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. For every reason you wanted a record of it?

Mr. BOLLING. Absolutely, sir.

The CHAIRMAN. Well, can you think of any particular reason why you wanted to have that in writing, that you had written Mr. Sands you would not help him out? Can you think of any particular reason now to tell the committee.

Mr. BOLLING. Well, the letter was a threat, practically, that unless I did something this thing would be made public. I therefore sent that letter to have a record of the fact that I did not do anything. I think that was a very good reason.

The CHAIRMAN. Now, do I understand that this anonymous letter was a threat that unless you did something to help Sands the thing would be made public?

Mr. BOLLING. Well, it was couched in about the same terms as the one you have read, sir.

The CHAIRMAN. Quoting from the letter, it contains this language, and I want to ask you if this is what you referred to: "Mr. Sands has been indicted and if he has to tell he will not spare anyone. It won't look so good in front, Mr. Wilson's brother-in-law mixed up in a scandal." That is the part you meant?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And there was a similar threat or intimation in the typewritten letter which you destroyed?

Mr. BOLLING. Yes.

The CHAIRMAN. This letter from Mr. Tumulty was a few days later in date?

Mr. BOLLING. No, sir; I think it was prior to that.

The CHAIRMAN. Prior?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. How long prior?

Mr. BOLLING. I would say it was prior, because I never got this letter until February.

The CHAIRMAN. No; I know it; but when did you see the other letter?

Mr. BOLLING. Why, around October 1.

The CHAIRMAN. Around October 1?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Well, then, why did you wait 18 days before you put your letter to Mr. Sands in writing? He had seen you about interceding with the President before that, had he not?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Why did you wait so long before putting it in writing?

Mr. BOLLING. Well, he had seen me several times about it. That was the culmination; this letter.

The CHAIRMAN. Oh, yes.

Mr. BOLLING. That is when I absolutely refused to do it in writing. He had seen me five or six times; his wife had called on me at home.

The CHAIRMAN. Has he seen you since?

Mr. BOLLING. I beg your pardon, sir?

The CHAIRMAN. Has he seen you since?

Mr. BOLLING. No, sir.

The CHAIRMAN. Is that the last time you ever saw Mr. Sands?

Mr. BOLLING. Well, I have seen him on the street, and I have seen him one since; yes, sir.

The CHAIRMAN. Talked with him?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. How long ago?

Mr. BOLLING. July 14, 1919, I saw him [referring to memoranda].

The CHAIRMAN. Have you a letter there from him?

Mr. BOLLING. Have I letter from him?

The CHAIRMAN. From Mr. Sands?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Will you let us see it, please?

Mr. BOLLING. Here are some letters that I have received very recently from Sands. This one is written on the bank—a notice from the bank that his note was due, if you will read it, sir [tendering paper to the chairman].

The CHAIRMAN. This is a notice that a note for \$913.80 would be due the Commercial National Bank of Washington, D. C., on August 17, 1920, addressed to T. K. Sands, 2139 Wyoming Avenue NW., Washington, D. C.; on the back of which is in pencil a message. Is that Mr. Tucker K. Sands's handwriting?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. You know that?

Mr. BOLLING. Yes, sir.

The CHAIRMAN (reading). "My dear Bolling: Please indorse this and send to Commercial." Is that Commercial an abbreviation for Commercial?

Mr. SANDS. Commercial; yes, sir; "can not pay anything."

The CHAIRMAN (reading). "Can not pay anything this time. Hope to do better next. Am doing right well in New York. Stop in to see me when here. Yours, sincerely, T. K. Sands, Lorraine Hotel, New York." When did you receive that?

Mr. BOLLING. I suppose, sir, around this date. Unfortunately I did not keep that envelope; August 17.

The CHAIRMAN. Probably a little before that date; before the note was due?

Mr. BOLLING. Probably a little before. This one I kept the envelope; this is the last one [producing paper].

The CHAIRMAN. Did you indorse that note?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Last August?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And returned it to him?

Mr. BOLLING. Oh, I went to the bank and indorsed it.

The CHAIRMAN. You went to the bank and indorsed it, did you?

Mr. BOLLING. No; "Please indorse this and send to the Commercial." This one he inclosed evidently with this, and I took it to the bank myself. That one, I think, went to the bank.

The CHAIRMAN. This is a letter of October 14, 1920. Halstead & Harrison letterhead, 71 Broadway, New York; the letter evidently written at 511 Fifth Avenue, New York:

MY DEAR BOLLING: I am sending a renewal note to Cahill to-day for \$900. Please call there and indorse it. Sorry couldn't curtail, but am not in position to do so right now. I will appreciate your kindness in this matter. With kind regards,

Sincerely,

T. K. SANDS.

You say you kept the envelope for this letter?

Mr. BOLLING. Yes, sir; I think that is the one, sir [producing envelope]. That date corresponds: it is either the one or the other.

The CHAIRMAN. The envelope apparently is for the notice, Mr. Bolling?

Mr. BOLLING. Well, this is the one, then. I beg your pardon, sir, it is the first one.

The CHAIRMAN. The envelope is postmarked New York, August 14, 1920. Written through the postmark is the word "Personal," addressed to R. W. Bolling, Esq., U. S. Shipping Board, Washington, D. C. That is Mr. Sands' handwriting upon the envelope?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Did you go to the bank last October and indorse that note for him?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Have you heard from him since?

Mr. BOLLING. No, sir.

The CHAIRMAN. After October 17, 1918, Mr. Bolling, when you had the conversation with Mr. and Mrs. Sands in Mr. Sands's rooms at the Willard Hotel, you wrote, "to confirm your attitude, less there be a misunderstanding." Now, had there been anything said which could have been misunderstood the night before?

Mr. BOLLING. No, sir. I meant by that, that on account of my friendship with Sands, I would have been glad to have helped him if I could, but that I wanted him to understand that I could not appeal to the President in this case.

The CHAIRMAN. You had made that plain to him, not only the night before but upon several occasions previously?

Mr. BOLLING. Several occasions; yes, sir.

The CHAIRMAN. Did it occur to you when you wrote this letter, after having seen an anonymous letter early in August, that possibly somebody was interested in framing up a story about you?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. What caused that suspicion to arise in your mind?

Mr. BOLLING. Well, I thought possibly that Sands had talked to his wife, and that she would have mentioned that thing, and that in that way that my name might be drawn into it. That is as far as I thought at the time.

The CHAIRMAN. She would have mentioned what, Mr. Bolling?

Mr. BOLLING. Mentioned the matter referred to here.

The CHAIRMAN. What matter referred to here? We have referred to so many.

Mr. BOLLING. The matter mentioned in the anonymous letter, that I was mixed up in any deal to get any money, with Sands.

The CHAIRMAN. Did you tell Mr. Sands you had seen an anonymous letter?

Mr. BOLLING. No, sir; I did not.

The CHAIRMAN. He had seen you several times, asking you to intercede in his behalf?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. He had seen you between the date you saw the anonymous letter and the night you saw him and his wife at the Willard?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And although there was an intimation in there that if Mr. Sands were asked to tell his story he would tell everything, you never told him that you had seen an anonymous letter with that statement in it?

Mr. BOLLING. No, sir.

The CHAIRMAN. Why not?

Mr. BOLLING. Because I thought he was at the bottom of it.

The CHAIRMAN. You thought Mr. Sands was at the bottom—

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Of what?

Mr. BOLLING. Of the anonymous letter.

The CHAIRMAN. Now, what was there that made you think that?

Mr. BOLLING. Well, because no other person on earth could have been at the bottom of it; nobody had an object except Sands.

The CHAIRMAN. Well, if that was so, why did you not tell him you had received an anonymous letter and let him know that somebody was trying to frame you, and that you were wise to it; if you thought he was the man, would that not have been the natural thing for you to have done?

Mr. BOLLING. Yes; it would have been, and I have often wished that I had, sir, right then and there.

The CHAIRMAN. But you did not?

Mr. BOLLING. No; I gave him the benefit of the doubt.

The CHAIRMAN. The only reason you thought Mr. Sands was connected with this anonymous letter was that you were convinced in your own mind that he was the only person who had the motive or who could have secured any advantage by undertaking such a thing, is it?

Mr. BOLLING. Absolutely, sir.

The CHAIRMAN. What was there that led you to reach that conclusion, out of 110,000,000 in this country? What was there in your previous dealings with Mr. Sands—your experience with him, your knowledge about him—that led you to think that he would, on the 1st of October—which you say you thought was before the time he had been indicted—have caused an anonymous letter to have been sent to the Secretary of the President, Mr. Tumulty, involving you and containing the statement that if he, Sands, were asked to tell he would show up the whole shooting match and, perhaps, get you involved in serious difficulty?

Mr. BOLLING. I do not know that that letter says he would show up the whole shooting match.

The CHAIRMAN. Well, that was my language.

Mr. BOLLING. Yes, sir. The other letter, as I remember it, said, simply stated that a contract had been let, and that Sands and three other people, including me, were mentioned in the division of the money paid.

The CHAIRMAN. Oh, the other letter went into more detail, did it?

Mr. BOLLING. No; it did not go into any more detail than this one, but it was couched in that language, as I remember it.

The CHAIRMAN. Well, it mentioned three other people, and this letter does not mention anybody.

Mr. BOLLING. Well, it said it was split in four parts and that Bolling got one-fourth.

The CHAIRMAN. And that Bolling got one-fourth?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. That was about the 1st of October. How many times had Mr. Sands asked you to help him before the 1st of October?

Mr. BOLLING. Well, I do not think that he had asked me but once, because I had been away on a vacation, and I got back, as I remember it, the 28th day of September, and that was the first time he asked me.

The CHAIRMAN. The 28th of September?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. You returned from your vacation on September 28?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And about October 1 you saw this anonymous letter which Mr. Tumulty had received?

Mr. BOLLING. About that time.

The CHAIRMAN. When did you see Mr. Sands after you returned from your vacation on September 28?

Mr. BOLLING. I saw him the first Sunday thereafter. I could determine that date by looking at the calendar almost exactly, sir.

The CHAIRMAN. This was last September?

Mr. BOLLING. 1918, only a day or so after I had returned.

The CHAIRMAN. Well, then, it would be the 29th or 30th of September?

Mr. BOLLING. The 30th, somewhere around there; yes, sir.

The CHAIRMAN. Was this 1918?

Mr. BOLLING. 1918; yes, sir.

The CHAIRMAN. That was the first time he asked you to intercede for him?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. What did he tell you, Mr. Bolling?

Mr. BOLLING. Well, the first thing he did he came up home in a machine and said he wanted to see me, and I went down, and he was very much excited and wanted me to go to Senator Owen.

The CHAIRMAN. Oh, this was the first?

Mr. BOLLING. Yes, sir; that was the first time.

The CHAIRMAN. I understand from your testimony this morning that that was the first time you ever knew?

Mr. BOLLING. Yes, sir; that was the first time.

The CHAIRMAN. That was a Sunday?

Mr. BOLLING. That was on a Sunday morning; yes, sir.

The CHAIRMAN. And you went to Altamont to Senator Owen's?

Mr. BOLLING. Yes.

The CHAIRMAN. Did you see him again prior to your seeing this anonymous letter at the White House?

Mr. BOLLING. If I did not see him, he called me on the phone and had his wife call me, sir. I can not say whether I saw him again or not in person, but he communicated with me several times.

The CHAIRMAN. The first time you saw Mr. Sands all that you learned of his difficulty and trouble was what you heard him tell Senator Owen in your presence?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. The sum and substance of it being that the bank examiners were persecuting him?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Were treating him unfairly?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. He was liable to get into difficulty?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. When next did you learn just what the offense was against him and for what he was being investigated?

Mr. BOLLING. To tell you the truth, sir, I did not know at the time exactly what his indictment was. I had not seen it, nor did Sands bring it out, because he contended that there was no justice in it, that the indictment was based on things that he had a right to do, and that he was being persecuted, that there was no substantiation. I do not believe I knew until now what Sands really was indicted for, and I am not sure at this minute what Sands is indicted for. I understand that it is for an overdraft that he allowed in the bank.

The CHAIRMAN. Did you ever tell Mr. Sands that you had seen an anonymous letter?

Mr. BOLLING. No, sir.

The CHAIRMAN. Did you see him after October, 1918, frequently?

Mr. BOLLING. No, sir; I lost sight of him then. I never saw him—I may have seen him on the street, but I never saw him to talk to.

The CHAIRMAN. Where was he living then?

Mr. BOLLING. I do not know, sir.

The CHAIRMAN. In October, 1916?

Mr. BOLLING. Oh, well, he was living at the Willard.

The CHAIRMAN. At the Willard?

Mr. BOLLING. At that time, but he moved shortly thereafter, I think. I do not know where he went.

The CHAIRMAN. He shortly thereafter left the bank?

Mr. BOLLING. Almost immediately thereafter; after his indictment came out he was requested to leave the bank.

The CHAIRMAN. How long after he left was it that your brother went into that bank?

Mr. BOLLING. Oh, I should say a month.

The CHAIRMAN. In November sometime?

Mr. BOLLING. Yes, sir; it was in November. I can establish those dates for you. My brother was then vice president of the Chatham & Phenix here in New York.

The CHAIRMAN. Oh, yes.

Mr. BOLLING. And Mr. Harmon, who was a big stockholder in the Commercial, and I think at the time was chairman of the board, came up to see him, and he also sent the counsel of the bank up to see him a great many times, and he came down and looked the bank over and talked to the various officials and talked to the bank examiner, and then declined the offer and came back to New York.

Then afterward, Mr. Wade Ellis, I think, was the counsel, came back again and wanted him to reconsider the matter, offered him an additional increase in his salary. He went down again and, I think, refused the offer again. And then finally he accepted it.

The CHAIRMAN. Did Mr. Sands ever say anything to you that if this indictment was not fixed up and he was brought into court and had to tell the story that he would tell some story getting you into serious trouble?

Mr. BOLLING. No, sir; he did not.

The CHAIRMAN. Never intimated it?

Mr. BOLLING. Well, he intimated it. He said, "You don't know but what your name might be brought into this," I think is about what he said.

The CHAIRMAN. That is, in his indictment?

Mr. BOLLING. But in no threatening way did he ever say it.

The CHAIRMAN. No. But you think that he might have said that to you and at the same time have written or caused to have been written this anonymous letter, putting it a little stronger?

Mr. BOLLING. Yes, sir, I do; either he or his wife.

The CHAIRMAN. He or his wife?

Mr. BOLLING. Yes.

The CHAIRMAN. Have you talked with Mrs. Sands since 1918?

Mr. BOLLING. The last time I talked with Mrs. Sands was just before Sands got out of the bank.

The CHAIRMAN. After you had written this letter?

Mr. BOLLING. Yes, sir. She called me on the phone and asked me if I would come to Mr. Sands's apartment; that she could not come over to the Shipping Board; that she had something she wanted to ask me to do for her; that it had nothing on earth to do with Mr. Sands's indictment. I called up Mr. Huston Thompson, having shown him this thing; I told him of this message and asked him if I should go. He said, "Yes; I think I would."

I went over there, and Mrs. Sands wanted me to ask my brother please not to accept the presidency of the Commercial National Bank because she said that Mr. Sands had not gotten a square deal there in the Commercial, and they were trying to put Mr. Sands out of the bank, and that she did not intend that he should resign. I told her that she could put her fears aside, that my brother had already refused the presidency of the Commercial National Bank; and that is all that took place at that interview.

The CHAIRMAN. Mr. Bolling, you having expressed a desire that the committee should fully investigate this matter, involving a serious charge against you, are there any other facts in your possession or within your knowledge, about which you have not been interrogated, which you desire the committee to have?

Mr. BOLLING. Well now, Mr. Chairman, I have this statement here, and if you will allow me, don't you think it would be a good plan to read that statement? It is largely what you have gone over. And then I have supporting evidence.

The CHAIRMAN. If it contains matters about which you have not been inquired of.

Mr. BOLLING. If you will allow me to look it over, sir; I think I can just go over it hurriedly.

The CHAIRMAN. I have been following it.

Mr. BOLLING. I think you have, sir.

The CHAIRMAN. Let me ask you if this is an original of the statement [showing witness paper]?

Mr. BOLLING. It is.

The CHAIRMAN. The letter you telegraphed me you were sending, and which I opened here this morning?

Mr. BOLLING. That is right, sir; practically the same thing. I have changed one or two things. I put in here, for instance, on the

first page, Mr. Sands "vice president and cashier"—inserted his title.

On the next page I said, "Early in 1918." I inserted here "about January." Otherwise I think that is all right.

Now, sir, there are a few papers here in connection with this that I would like to read into the record. This [producing paper] is an affidavit from Mr. Todd, the man with whom I was associated in the building of the Sands house, and I would like to put that into the record.

The CHAIRMAN. When was the affidavit made, Mr. Bolling?

Mr. BOLLING. It was made November 27 of this year, sir.

The CHAIRMAN. Was that made for the purpose of being brought to the attention of this committee?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. You are able to say that that is Mr. Todd's signature on that document?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Very well, that may be inserted in the record. If you desire to read it, you may read it, or insert it without reading; just as you prefer.

Mr. BOLLING. I would like to read it, sir. It corroborates me in my statements in connection with the house.

The CHAIRMAN. Very well.

(Mr. Bolling read the affidavit, as follows:)

District of Columbia, to wit:

In the spring of 1916 I was informed by an acquaintance that Mrs. Sands was contemplating building a home. At that time Mr. R. W. Bolling was associated with me in the construction business. Together Mr. Bolling and I visited Mr. Sands also Mrs. Sands, and we were informed by them that they would build, if such a house as Mrs. Sands had in mind could be built within their price limit. Mr. Bolling and I later submitted a bid and received the contract to build the house according to certain plans and specifications. During the construction of the house Mrs. Sands made many changes. I called Mr. Sands's attention to the fact that he would be charged with the cost of these changes, and he informed me that if we pleased Mrs. Sands he would be entirely satisfied. Upon completion of the house and its acceptance, Mr. Bolling and I rendered our bill for the extras put on the house by Mrs. Sands; we submitted receipted bills from the various material firms, subcontractors, and workmen who made the different alterations and changes; the bill for extras amounting to \$1,511 which both Mr. and Mrs. Sands said was excessive. Later, Mr. Bolling and I, upon invitation of Mr. and Mrs. Sands, met one evening in their home, the object being to reach a settlement for the house.

A friendly discussion was had and, during this discussion, we yielded something on the amount of the bill, and reduced it to approximately \$1 200, this was still considered unsatisfactory, particularly to Mrs. Sands. Mr. Bolling and I had given Mr. Sands a very low figure on the house and the bill for extras was eminently fair and just, so I steadfastly opposed making any further concession. After further discussion Mr. Bolling said that rather than to have any unpleasant feeling or dissatisfaction about the house, that he, Mr. Bolling, would yield his half of the bill for extras which represented the greater portion of his share of the profit. We reached a settlement with Mr. Sands on this basis, that is, Mr. Bolling yielded his half of the charge for the extras, and settlement was made on the firm books in this manner. Mr. Bolling's account being charged with the amount. Mr. Sands did not settle in cash, but gave his note for \$6 000, which Mr. Bolling indorsed and discounted.

A short time later I met the husband of the acquaintance who first gave me the information that Mrs. Sands contemplated building a house. This party is an attorney in Washington, and if necessary I can give his name. He asked me about the Sands house and I told him the transaction had been to some

extent unsatisfactory and that Mr. Bolling, to reach a settlement, had given Mr. Sands one-half of the bill for extras. Mr. Bolling had gone out of the construction business before the completion of the Sands house, so except for a period of about two months, I saw him only occasionally when our business affairs were being settled. However, a year or more later I rode home with Mr. Bolling and he informed me that Mr. Sands had since paid him the amount which he had waived. Mr. Sands had even sold his house long since for a profit of \$3,500, this before real estate had started on its upward trend. I was very much engaged with my own work at that time and aside from being pleased that Mr. Bolling had received what was due him I evinced no further interest in the matter.

WILLIAM TODD.

Subscribed and sworn to before me this 27th day of November, 1920.

JOHN J. FLAHERTY,
Notary Public.

Notarial seal of J. Pierson James, affixed to the affidavit.

Mr. BOLLING. Of that letter you have the original, sir [producing paper].

The CHAIRMAN. This is the letter of October, 1918, which bears your signature?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. We have that.

Mr. BOLLING. This I would like to put in the record [producing statement on letterhead of the Commercial National Bank].

The CHAIRMAN. This being the statement from the bank?

Mr. BOLLING. That is the affidavit of the bank on the notes.

The CHAIRMAN. I asked you if you knew that that was Mr. Ghiselli's signature?

Mr. BOLLING. Yes, sir; that is his signature.

The CHAIRMAN. Was this made at your request?

Mr. BOLLING. Yes, sir; I had that made.

The CHAIRMAN. This being a statement of the payments made on account of the note which Mr. Sands gave to you, as payment on the contract price of the house which you and Mr. Todd constructed for him?

Mr. BOLLING. That is right, sir.

The CHAIRMAN. And which you discounted?

Mr. BOLLING. I discounted; yes, sir.

The CHAIRMAN. This being the bank statement of how that note has been gradually reduced?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Until on October 15, 1920, there was \$914 due, to be paid January 14, 1921.

Mr. BOLLING. That is right, sir.

The CHAIRMAN. That statement can be placed in the record.

(The statement referred to reads as follows:)

THE COMMERCIAL NATIONAL BANK,
Washington, D. C.

I, Frank E. Ghiselli, assistant cashier, Commercial National Bank, Washington, D. C., do solemnly swear that the following list of a history of notes, signed by T. K. Sands and indorsed by R. W. Bolling, were copied by me from the original book of entry of the Commercial National Bank, Washington, D. C., from the discount register:

Date.	Note and interest.	Due.	Date.	Note and interest.	Due.
Nov. 13, 1916.....	\$6,091.00	Feb. 12, 1917	Mar. 11, 1919.....	\$2,323.00	May 12, 1919
Feb. 12, 1917.....	5,583.45	May 14, 1917	May 12, 1919.....	2,021.00	July 15, 1919
May 14, 1917.....	5,076.00	Aug. 13, 1917	July 15, 1919.....	1,494.00	Sept. 15, 1919
Aug. 17, 1917.....	4,568.25	Nov. 12, 1917	Sept. 15, 1919.....	1,218.00	Dec. 15, 1919
Nov. 12, 1917.....	4,356.25	Feb. 11, 1918	Dec. 15, 1919.....	1,111.00	Feb. 13, 1920
Feb. 11, 1918.....	4,060.65	May 13, 1918	Feb. 13, 1920.....	1,016.00	May 17, 1920
May 14, 1918.....	3,553.10	Aug. 12, 1918	May 17, 1920.....	913.00	Aug. 17, 1920
Aug. 12, 1918.....	3,299.00	Nov. 11, 1918	Aug. 17, 1920.....	909.00	Oct. 15, 1920
Nov. 11, 1918.....	3,131.00	Jan. 10, 1919	Oct. 15, 1920.....	914.00	Jan. 14, 1921
Jan. 10, 1919.....	2,626.00	Mar. 11, 1919			

FRANK E. GHISELLI.

DISTRICT OF COLUMBIA,
City of Washington, ss.

Subscribed and sworn to before me this 27th day of November, 1920.

ALEXANDER R. VARELA;
Notary Public, District of Columbia.

Notary seal of Alexander R. Varela.

Mr. BOLLING. Now, sir, here is another matter. This one has not come up here at all. This is a photostat of a letter that is in the files of the Emergency Fleet Corporation in regard to the credit extended by Mr. Sands in behalf of the bank, and signed by him as vice president, to the Providence Engineering Co., and guaranteeing a credit of \$125,000, to be used as working capital in connection with pending contracts covering the construction of 10 tugboats for the Emergency Fleet Corporation, during the entire life of the contract.

The CHAIRMAN. Where did you get it?

Mr. BOLLING. Mr. Tweedale gave me a photostat of it.

The CHAIRMAN. When?

Mr. BOLLING. Three or four days ago, sir.

The CHAIRMAN. For use in connection with this inquiry?

Mr. BOLLING. Yes, sir. He has the original, I think.

The CHAIRMAN. I understand that you know nothing about this part of it, Mr. Bolling?

Mr. BOLLING. No, sir; Mr. Tweedale gave me that, sir. He found that in the files.

The CHAIRMAN. You know that this in is in the files of the Fleet Corporation?

Mr. BOLLING. Well, Mr. New has it now, Mr. Tweedale told me.

The CHAIRMAN. I say, you know it is in the files?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. You have seen the original, have you?

Mr. BOLLING. Yes, sir; Mr. Tweedale has the original.

Mr. TWEEDALE. The original is here.

The CHAIRMAN. I say you, Mr. Bolling, have seen the original?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Therefore you know it is in the files?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. It bears Mr. Sands's signature?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Well, as long as the original is here, Mr. Bolling, we will let the person who has custody of it produce it.

Mr. BOLLING. Yes, sir.

The CHAIRMAN. If there is anything about this which you wish to testify about you may do so, and use the photostat copy for that purpose.

Mr. BOLLING. No, sir; there is nothing that I wish to testify to on that.

The CHAIRMAN. Except that there is such a letter?

Mr. BOLLING. That there is such a letter; yes, sir.

The CHAIRMAN. We will inquire about that later.

Mr. BOLLING. Yes, sir. Here is something that I can not leave with the committee, but these are the original contracts with the Downey Shipbuilding Co., between the Downey and the Emergency Fleet, and also the contract of March 14, 1918, between the Providence Engineering Corporation and the Fleet. I can have those photostated.

The CHAIRMAN. Will you have photostat copies made of those?

Mr. BOLLING. I can have those made, sir; but I brought the originals.

The CHAIRMAN. We are glad to see the originals. You know nothing about the transaction?

Mr. BOLLING. Absolutely nothing.

The CHAIRMAN. Or the terms of the contract?

Mr. BOLLING. No, sir; I have not read them.

The CHAIRMAN. Are they in your custody?

Mr. BOLLING. They are at present, yes, sir; since I became treasurer.

The CHAIRMAN. As treasurer?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. All contracts are placed with you?

Mr. BOLLING. All contracts are with me now, sir, just for safe-keeping.

The CHAIRMAN. Mr. Bolling, is there anything about these contracts that you wish to testify about? You have produced them; now, is there any particular clause?

Mr. BOLLING. Nothing, sir, except that I would call the attention of the committee to the date on the Providence Engineering Corporation contract, which is March 14, the day before this guaranty of the bank was sent. This is dated March 15. The contract was dated March 14. That is the only thing I have to say about it.

The CHAIRMAN. If you will have photostat copies made of both of those contracts we would like to have them.

Mr. BOLLING. I will do that, sir. There are four of them, I think, sir.

The CHAIRMAN. Yes; there are; of each of the contracts, and sent to the committee.

Mr. BOLLING. I will do that, sir.

The CHAIRMAN. You might send them to me, addressed to the House of Representatives at Washington, where I will be next week.

Mr. BOLLING. I will send them by messenger to you.

The CHAIRMAN. Very well. We will retain this Providence Engineering Corporation contract just for a few minutes, Mr. Bolling. Have you anything else there you desire to present to the committee by way of documents or information?

Mr. BOLLING. Yes, sir; I have my bank statements, the original statements sent me by the bank, for the entire year of 1918. I would like to put those in, sir [producing papers].

The CHAIRMAN. This is a statement of checks and deposits?

Mr. BOLLING. Yes, sir. I have all of the original duplicates—I mean, they have stopped keeping passbooks now, you know. I always make out a duplicate deposit slip. They stamp on it, “Duplicate” and they keep the other. Now, I have all of those here, showing all——

The CHAIRMAN. To substantiate these statements?

Mr. BOLLING. To substantiate them, just as listed, sir.

The CHAIRMAN. The original deposits slips, I assume, are in the possession of the bank?

Mr. BOLLING. With the bank; yes, sir.

The CHAIRMAN. This is quite a voluminous record.

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Do you desire that this be placed in the record of the committee?

Mr. BOLLING. I will leave that to the committee, sir. I simply furnish it.

The CHAIRMAN. We will leave it to you, sir. If it is your wish that this be included in the record of the committee, I will so order it.

Mr. BOLLING. That is very kind of you, sir. If you would appoint somebody to go over my deposits with me, so that I can show where very cent of the deposits shown came from, then I do not care about it being in the record.

The CHAIRMAN. Very well, we will suspend action upon that for the present.

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Now is there anything else you desire?

Mr. BOLLING. No, sir; I think that is all.

The CHAIRMAN. You said that you had some canceled checks showing the payment of the \$7,500 loan?

Mr. BOLLING. Yes, sir; that is true. I will furnish those to the committee.

The CHAIRMAN. If you will get those and furnish them, the original checks.

Mr. BOLLING. They are the original checks, and I will be glad to furnish all of my checks for 1918, the original checks canceled.

The CHAIRMAN. What period does this statement cover?

Mr. BOLLING. This covers the period starting with January, 1918, through December 31, 1918; for the entire year, sir.

The CHAIRMAN. You say you have nothing else?

Mr. BOLLING. Than the deposit slips. Oh, this check I want to go in, sir; that is the check repaying that loan.

The CHAIRMAN. The check repaying the loan with interest?

Mr. BOLLING. You read that in, sir.

The CHAIRMAN. We read it into the record this morning. Unless perhaps you could have a photostat copy made of it?

Mr. BOLLING. I will put that with my other checks when I give them to you.

The CHAIRMAN. Have you anything further that you desire to bring out?

Mr. BOLLING. Nothing further, sir.

The CHAIRMAN. Have you any further statement you desire to make?

Mr. BOLLING. No, sir; I think you have covered the statement fully.

The CHAIRMAN. Are there any questions you have, Mr. Kelley?

Mr. KELLEY. After you went out of the contracting business, and also the brokerage business, you were appointed a banking examiner, as I understand?

Mr. BOLLING. As an assistant; yes, sir.

Mr. KELLEY. An assistant bank examiner?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. Was that a national-bank examiner?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. You had had quite a bit of banking experience before that time, had you?

Mr. BOLLING. Well, I have had a good deal of financial experience; yes, sir.

Mr. KELLEY. What positions have you held in banks?

Mr. BOLLING. None, sir.

Mr. KELLEY. None. You were always with some banking examiner when you went out on the road examining banks?

Mr. BOLLING. Well, the New York banks are large, and usually we go into a bank at three o'clock in the afternoon, after their day is over, in large enough number to examine that bank, usually 8 or 10 and sometimes 20 examiners, and each man is assigned to a certain department, and he takes care of that particular department.

Mr. KELLEY. But this position was a sort of a temporary affair all the time?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. Considered so by you?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. Paying a salary of how much, did you say; \$2,000 a year?

Mr. BOLLING. I think that I started there at about \$2,200, and I believe I was raised to \$2,500 or \$2,600, just prior to my resignation.

Mr. KELLEY. This was after the war, after we had gotten into the war?

Mr. BOLLING. Let me see, we declared war in April, was it not?

Mr. KELLEY. April, 1917.

Mr. BOLLING. 1917. I have not established that. It was in April, 1917, that I came to New York; yes, sir.

Mr. KELLEY. You had made some applications for other positions with the Government?

Mr. BOLLING. I was looking for a position; yes, sir. I had asked several of my friends to let me know of anything that was open.

Mr. KELLEY. I think you said it took you about three months to get a position that was really attractive, any way attractive to you?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. Well, you knew Mr. Tumulty a long time, I suppose?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. Could he not help you out in getting you connected with any of the various branches of the Government that were starting up at that time?

Mr. BOLLING. Well, I had asked Mr. Tumulty, as I had asked a great many people.

Mr. KELLEY. And Mr. McAdoo, I suppose, had a great many positions at his disposal?

Mr. BOLLING. Yes; but I never asked Mr. McAdoo.

Mr. KELLEY. Although this position, of course, was in his department, was it not?

Mr. BOLLING. Mr. McAdoo, sir?

Mr. KELLEY. Yes; he was Secretary of the Treasury at that time?

Mr. BOLLING. Yes; yes, sir; it would be considered under him.

Mr. KELLEY. And it took you three months to get a position that was attractive to you?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. When you went with the Shipping Board I suppose that Washington was full of agents of every kind, pretty nearly, seeking contracts with the Government?

Mr. BOLLING. I imagine so; yes, sir.

Mr. KELLEY. On account of your private family connections. I suppose you had to be on guard all the time, pretty nearly, did you not?

Mr. BOLLING. I have been, sir, for the last five years.

Mr. KELLEY. Even casual acquaintances, I suppose, sometimes would prey upon the fact that they knew you?

Mr. BOLLING. They would, sir. I had a man ask me while I was at lunch to-day, if I could not get him a job.

Mr. KELLEY. And I suppose that an unscrupulous agent at Washington, representing some outside contractor and seeking to make himself strong with his employer, if he had any possible show of saying that he knew Mr. Bolling, would say so?

Mr. BOLLING. He would, sir. Not that it did him any good.

Mr. KELLEY. No; but he might say that as a method of strengthening himself with his employer?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. You found that situation probably all the while to meet, did you not?

Mr. BOLLING. All the while; yes, sir.

Mr. KELLEY. And that would naturally put you on your guard?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. In dealing with various people?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. I was wondering if it would not have been better for you if you had told everybody who sought favors of you, in other departments of the Shipping Board and the Government, that you had nothing whatever to do with that, rather than by saying that you would do all you could for them.

Mr. BOLLING. I think it would have; yes; and I have lately adopted that principle.

Mr. KELLEY. This position that you hold now is an exceedingly important one, is it not?

Mr. BOLLING. Yes, sir; I consider it so.

Mr. KELLEY. About how much money passes through your hands annually?

Mr. BOLLING. Well, I have not been there a year yet, sir, but a great quantity of money; oh, I should say over \$200,000,000.

Mr. KELLEY. Not more than that?

Mr. BOLLING. Well, I have not been there a year yet.

Mr. KELLEY. I know, but at the rate?

Mr. BOLLING. Oh, yes; during the war a great deal more; during the war \$167,000,000 in the operations alone passed through my hands; I mean from the inception.

Mr. KELLEY. Somebody has stated to the committee that the Shipping Board is an institution twice the size of the United States Steel Corporation. Is that correct, do you think?

Mr. BOLLING. I would say it was, easily, sir.

Mr. KELLEY. And you are the treasurer of that gigantic institution?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. What is your salary?

Mr. BOLLING. \$10,000.

Mr. KELLEY. You first were getting, as a banking examiner, \$2,200?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. And then as an assistant treasurer, \$4,000?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. And as treasurer, \$10,000?

Mr. BOLLING. Yes. That salary of \$4,000 was increased to \$5,000 about six or eight months after I had been there, sir.

Mr. KELLEY. You were an assistant to Mr. Tweedale while he was treasurer?

Mr. BOLLING. Yes, sir; I have been assistant to all of the treasurers as they came. I have been one of the assistants, I should say; Mr. Luckett is the other one.

Mr. KELLEY. In this Sands matter you considered all along, until matters reached a crisis, that Mr. Sands was a friend of yours, and proceeded on that theory?

Mr. BOLLING. One of the best friends I had; yes, sir. Not only that, but my financial adviser and my banker, and I always considered him so. There was no reason why I should not. He held a responsible position—an officer of one of the biggest banks in Washington—and had been my banker since 1914.

Mr. KELLEY. You thought he was a perfectly honest and honorable man all the time?

Mr. BOLLING. Absolutely.

Mr. KELLEY. Until this reached a crisis as to his arrest?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. Well, did it not shake your faith in him a little when he said that he would divide that commission for the——

Mr. BOLLING. It did, sir.

Mr. KELLEY. What are those called, bending rolls?

Mr. BOLLING. Bending rolls; yes, sir.

Mr. KELLEY. I do not know whether you know what a bending roll is or not. I do not.

Mr. BOLLING. I do not know, sir, what it is. It is a piece of machinery. I imagine it is a machine with two rolls, to bend the plates in shape to put on the hulls. I did that as much for the Fleet Corporation's interest as I did for Mr. Sands, and I have serious doubts if Mr. Sands ever got anything for it.

Mr. KELLEY. But he told you that he was going to get something for it?

Mr. BOLLING. He told me that he was going to get something; yes, sir.

Mr. KELLEY. Don't you think he is a truthful man?

Mr. BOLLING. No, sir; I do not.

Mr. KELLEY. Not now, eh?

Mr. BOLLING. No, sir.

Mr. KELLEY. Have you ever caught him telling falsehoods about any matters that did not directly concern you?

Mr. BOLLING. No, sir; I have not; except this one.

Mr. KELLEY. So far as you know, in other matters he has been truthful?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. In this brokerage business he was sort of the angel of the affair?

Mr. BOLLING. He was the guardian angel. I owe everything that I have ever had any trouble, when you come to look back on it, with Mr. Sands.

Mr. KELLEY. Well, did he originate the idea of having a brokerage house?

Mr. BOLLING. No, sir; I will give you a brief history of that.

Mr. KELLEY. I do not think it is necessary, particularly.

Mr. BOLLING. Well, these two men were already in business, Robertson and Connolly, but they did not have a stock exchange seat. Therefore, they were not making anything but the interest on the money, because they had to pay all the commissions to the New York man that bought and sold the stock; they had a private wire. So Connolly told me that if we could get a stock exchange seat we would get all those commissions, and that is where Sands came in, helping to arrange to finance it.

Mr. KELLEY. Did you borrow the money of Sands to go into this brokerage firm?

Mr. BOLLING. No, sir; I borrowed part of that money; I can give you a record of exactly how that was.

Mr. KELLEY. But you did not borrow it of Sands?

Mr. BOLLING. No, sir; I borrowed part of that from the Commercial National Bank, and I put in my own cash, \$10,000, into it.

Mr. KELLEY. You made the loan through Sands, did you not?

Mr. BOLLING. Oh, I made it through him as an officer of the bank.

Mr. KELLEY. Yes; Sands was instrumental in letting you have the money from the bank?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. To start in business?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. Now, what security did you give him for that?

Mr. BOLLING. Well, I put up some stocks and bonds and things, I think, sir.

Mr. KELLEY. And then you paid that loan to the bank, did you?

Mr. BOLLING. No, sir; I have never paid that loan. It is still out, the larger portion of it.

Mr. KELLEY. At the bank?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. How much is that, did you say?

Mr. BOLLING. There are two or three different notes there. Let me see, I think I can tell you. I carry it with me [referring to memorandum]. I will tell you what I owe the bank.

Mr. KELLEY. I am only asking this because it connects with Mr. Sands.

Mr. BOLLING. I am very glad for you to ask it.

Mr. KELLEY. Mr. Sands made the arrangements, I understand.

Mr. BOLLING. This is an old, old statement. All of that money did not come from the Commercial. I would rather get that statement up for you, sir, than to give you these figures.

Mr. KELLEY. Well, that probably would be better.

Mr. BOLLING. But I will tell you now that in January, 1917, I owed the Commercial \$10,204.

Mr. KELLEY. But the loan was made by the regular discount committee?

Mr. BOLLING. Oh, yes; yes, sir.

Mr. KELLEY. And Mr. Sands is not under obligations personally on your account?

Mr. BOLLING. Oh, no; no, sir. But part of that money—part of those notes were older than that.

Mr. KELLEY. Well, now, he did put up some money to the firm?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. To the partnership?

Mr. BOLLING. Yes, sir. He arranged to get, as I remember, \$40,000; I think I am correct in that figure.

Mr. KELLEY. You think that either \$30,000 or \$40,000 was paid into the firm?

Mr. BOLLING. I do not know whether that included his commission for getting it or whether we paid that outside.

Mr. KELLEY. If it did, the firm got \$30,000?

Mr. BOLLING. That is the idea, sir.

Mr. KELLEY. If not, it got \$40,000?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. Did you arrange that loan yourself?

Mr. BOLLING. No, sir; I did not. No; they had it all arranged as to how they could work out to get——

Mr. KELLEY. Did this make Sands a partner in the affair in some way?

Mr. BOLLING. No, sir. No, sir; he was not to share in any of the profits.

Mr. KELLEY. Except the \$10,000?

Mr. BOLLING. Except that.

Mr. KELLEY. The commission that he was to get for placing this loan?

Mr. BOLLING. That was all; yes, sir.

Mr. KELLEY. Did he get the money from the bank?

Mr. BOLLING. No, sir; I think not.

Mr. KELLEY. That was a personal matter with him?

Mr. BOLLING. He got it somewhere else; I think so.

Mr. KELLEY. Did you sign the notes?

Mr. BOLLING. No, sir; I think not. F. A. Connolly & Co. they were signed.

Mr. KELLEY. In behalf of F. A. Connolly & Co.; that made you liable under the notes, did it not?

Mr. BOLLING. Well, there was an F. A. Connolly & Co., you see, before I came into it.

Mr. KELLEY. Yes; but you were a partner at the time the notes were given?

Mr. BOLLING. Yes, sir; I came into it.

Mr. KELLEY. And they were signed F. A. Connolly & Co., I suppose, per F. A. Connolly, president, if that is what he was?

Mr. BOLLING. They were probably signed that way; but that note, I think, was given prior to my actually coming in, because they had worked it out how they could finance this seat, which cost about \$75,000; that they could get that \$40,000 from Sands and \$10,000 from me, and, I think, a credit in New York of \$25,000. I am not sure how they got the other \$25,000; but anyhow, they had it arranged that way.

Mr. KELLEY. Well, now, when did Sands release you from any responsibility in connection with that loan?

Mr. BOLLING. Why, he never mentioned that loan to me, sir.

Mr. KELLEY. Has he not sought to hold you liable with the other partners?

Mr. BOLLING. No, sir.

Mr. KELLEY. For the loan?

Mr. BOLLING. No, sir.

Mr. KELLEY. Has he not told you that because he and you were such good friends he would release you from responsibility?

Mr. BOLLING. No, sir.

Mr. KELLEY. Do you know what securities he had for the protection of that loan?

Mr. BOLLING. I do not know that he had any, sir; I do not think he had. For that \$40,000, you mean?

Mr. KELLEY. For the amount, yes.

Mr. BOLLING. I am sure that he had nothing, sir.

Mr. KELLEY. Are you sure, Mr. Bolling, that at the time that \$40,000 was borrowed you were not a member of the firm?

Mr. BOLLING. Well, it was prior to my coming in, because I did not become a member of the firm until we had the stock exchange seat; and we could not buy the stock exchange seat unless the money was forthcoming, and my \$10,000 was a part of the money that went to buy the stock exchange seat.

Mr. KELLEY. Do you not think, possibly, that the arrangement was made for the \$40,000, but the actual paying in of the money—

Mr. BOLLING. That may be true, sir; and that is what I tried to determine yesterday. I did not have time to get that. I went, or rather, I phoned to Mr. Robertson and asked him to get those books for me, so that I could tell.

Mr. KELLEY. Then it may be that you are liable on that \$40,000 note?

Mr. BOLLING. It might be. I have often thought of that, sir.

Mr. KELLEY. And never have inquired into it, to ascertain whether you were or not?

Mr. BOLLING. No, sir.

Mr. KELLEY. You had all you could handle without that, eh?

Mr. BOLLING. Let the sleeping dogs lie. I have got enough to take care of.

Mr. KELLEY. Who is this Mr. Robertson that you have spoken of so many times?

Mr. BOLLING. Mr. Robertson? Mr. Robertson is from Maryland, some part of Maryland. He is now an agent for the Stutz car in Washington, and prior to going into that firm he was connected with the Commercial National Bank, I think, in the capacity of a bookkeeper, clerk, or paying teller, or something of that kind.

Mr. KELLEY. Under Mr. Sands?

Mr. BOLLING. Yes, sir; but I never knew him until I got into the firm.

Mr. KELLEY. Did he engage in any war activities of any kind?

Mr. BOLLING. Mr. Robertson, sir?

Mr. KELLEY. Yes.

Mr. BOLLING. No, sir; he did not.

Mr. KELLEY. You do not know whether or not he was interested in any shipbuilding company?

Mr. BOLLING. Yes, sir; I think he was.

Mr. KELLEY. What company?

Mr. BOLLING. The White Haven Shipbuilding Co., White Haven, Md.

Mr. KELLEY. Was there any difficulty or trouble about settling the claims of that company?

Mr. BOLLING. None that I know of, sir.

Mr. KELLEY. Did Mr. Robertson ever talk to you about their claim?

Mr. BOLLING. Time and time again, sir.

Mr. KELLEY. Do you know what settlement was made?

Mr. BOLLING. No, sir; I do not.

Mr. KELLEY. What did he want you to do in connection with the claim?

Mr. BOLLING. Why, he urged that I do something, anything I could, to help him; but I had not done a thing, sir, to help him.

Mr. KELLEY. You did not speak to anybody on the Claims Committee?

Mr. BOLLING. No, sir. I sent Mr. Robertson to see Mr. Martin Gillen.

Mr. KELLEY. And did you say anything to Mr. Gillen about trying to get an early settlement of it, or get it disposed of.

Mr. BOLLING. I told Mr. Gillen anything he could do to help him I would appreciate, sir.

Mr. KELLEY. Then you did use your influence with Mr. Gillen in behalf of this White Haven claim?

Mr. BOLLING. To that extent; yes, sir.

Mr. KELLEY. Well, what more could you do?

Mr. BOLLING. That is all I could do.

Mr. KELLEY. Than to go to the man who was the aid to the head of the board, and ask him to do what he could, and all he could do you would greatly appreciate personally?

Mr. BOLLING. That is all that I did, sir. That is what I did.

Mr. KELLEY. What more could you do than that?

Mr. BOLLING. That is all I could do.

Mr. KELLEY. Then you did help him to the very extent of your position there and your ability in that case?

Mr. BOLLING. Well, I had the matter——

Mr. KELLEY. I do not mean to say now, Mr. Bolling, that there was a thing wrong about that, or that you received any compensation for it at all.

Mr. BOLLING. I say, that is exactly what I did, sir.

Mr. KELLEY. Was that not another case where an acquaintance or a friend or a former business associate took advantage of your position there and got you to do something which you probably should not have done, Mr. Bolling?

Mr. BOLLING. Well, I don't know, sir. I am not the man to see on that, you understand; and people coming in, I always try to refer them to the proper department, and that is about all I did with Mr. Robertson.

Mr. KELLEY. You see, you are in a very delicate and difficult situation there.

Mr. BOLLING. I am, sir.

Mr. KELLEY. Because a request coming from you would carry a great deal of weight for two reasons; one of which is that you are the treasurer of this enormous affair?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. And a request upon Mr. Gillen that he use all reasonable means to advance this claim, and that you would appreciate anything he could do personally, meaning I suppose honestly——

Mr. BOLLING. Yes, sir.

Mr. KELLEY. Would carry a good deal of weight.

Mr. BOLLING. Yes, sir.

Mr. KELLEY. Well, do you know as a matter of fact that this claim was settled for \$102,000, or something like that?

Mr. BOLLING. No, sir, I do not.

Mr. KELLEY. After the comptroller had recommended that nothing be paid?

Mr. BOLLING. No, sir; I do not.

Mr. KELLEY. You do not know whether that is true or not?

Mr. BOLLING. No, sir.

Mr. KELLEY. Has Mr. Robertson ever seen you again about this case, since it was settled?

Mr. BOLLING. I do not think he has, sir; never mentioned it.

Mr. KELLEY. Do you keep a set of books, Mr. Bolling, outside of your cash book?

Mr. BOLLING. I keep almost everything in my check book, sir.

Mr. KELLEY. Yes; a great many of us are perfectly able to do that.

Mr. BOLLING. I do not have much trouble keeping my books. The principal thing I have trouble with are my bills, to try and get enough money to pay them.

Mr. KELLEY. When was the last time you saw Mr. Robertson, Mr. Bolling?

Mr. BOLLING. Well, I talked to him yesterday, sir, on the phone, in regard to this Connolly thing. I do not know when I have seen him last; it has probably been two months.

Mr. KELLEY. Do you remember when was the last time you talked with him about his claim before the Shipping Board?

Mr. BOLLING. No, sir.

Mr. KELLEY. I think you testified this morning, Mr. Bolling, to certain specific loans for which you had given notes to Mr. Sands?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. And then you also stated that you had made a great many other loans from him, for which you had given no notes of any kind; or did I misunderstand you.

Mr. BOLLING. I think you must have misunderstood me, sir. I did not think I made that statement.

Mr. KELLEY. I think—just refresh your mind, Mr. Bolling—that you said you had had hundreds of financial transactions with Mr. Sands?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. And that you had borrowed money of him a great many times?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. And the chairman asked you whether or not you gave a note, and you said, no, except in these instances which you detailed here.

Mr. BOLLING. Well, I did not mean to leave you under that impression, sir, because I have not borrowed very much money from Sands without giving him a note.

Mr. KELLEY. Well, now, you have borrowed some from Mr. Sands, for which you have given no notes.

Mr. BOLLING. Well, this \$600 in question is the only thing I think of, sir, that has not been covered by notes. Of course, that was not a loan.

Mr. KELLEY. You did not borrow that?

Mr. BOLLING. That was not a loan.

Mr. KELLEY. That was just paying you on the contract for the house?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. Is that all?

Mr. BOLLING. That is all, sir.

Mr. KELLEY. What did you mean when you said you had had hundreds of business transactions with him?

Mr. BOLLING. Well, I think both as an official of the bank and personally; but I have had a great many transactions with Mr. Sands in regard to his house, and in regard to the Connolly matter.

Mr. KELLEY. But outside of these transactions that you spoke of this morning, the chairman asked you, if I remember correctly—and I do not want to misquote you, you understand.

Mr. BOLLING. No, indeed; I know it.

Mr. KELLEY. But I just want to refresh your memory, so you can correct me if you misunderstood his questions.

Mr. BOLLING. I probably did, sir.

Mr. KELLEY. If you had had other transactions with Mr. Sands besides these you have named here?

Mr. BOLLING. I have had other transactions, but I think they would all be fully covered by notes.

Mr. KELLEY. What other transactions have you had with them?

Mr. BOLLING. Well, none besides what I have named. I mean, in connection with the Connolly Co. and the house.

Mr. KELLEY. Well, now, I have excluded those two, Mr. Bolling.

Mr. BOLLING. And, I say, I do not think there is any other transaction I have had with him.

Mr. KELLEY. Then, you want your testimony to stand that outside of the money that you borrowed—this \$7,500 to clean up the Connolly matter—you have not borrowed any money of Mr. Sands?

Mr. BOLLING. Are you going clear back to the beginning?

Mr. KELLEY. Well, you did not know him very long, you know.

Mr. BOLLING. Let me see. Of course, I have not searched my records very carefully from the beginning.

Mr. KELLEY. Here is a note of May 21, 1918.

Mr. BOLLING. That one I had; yes.

Mr. KELLEY. The \$300 note?

Mr. BOLLING. Yes, sir. Prior to 1918 I had some business transactions with Sands, both in connection with his curtailment of the note, and Sands had loaned me money as a bank official; but I do not think that he had ever loaned me any money that was not covered by my note to him, nor do I think he ever loaned me any other money personally, except money in connection with the brokerage affair, and that was after I got out; he did loan me the \$7,500, you know, that I explained.

Mr. KELLEY. Well, now, during the year of 1918, subsequent to the 14th of March, did you borrow any of Mr. Sands?

Mr. BOLLING. No, sir. Oh, well, subsequent to that; yes, sir.

Mr. KELLEY. For which you gave no notes?

Mr. BOLLING. Oh, no, sir; not after that.

Mr. KELLEY. You want to be pretty sure about that, Mr. Bolling.

Mr. BOLLING. That is after March, 1918?

Mr. KELLEY. March 14, 1918.

Mr. BOLLING. That I never borrowed any money from him personally; that I did not give notes?

Mr. KELLEY. Yes; that is the way you want the testimony to stand?

Mr. BOLLING. Yes; with the exception of that one note at \$300.

Mr. KELLEY. Yes; except as you have testified here.

Mr. BOLLING. That is right, sir.

Mr. KELLEY. Then, if Mr. Sands or anybody else has informed the committee that they opened up an account with you on the basis of commissions for services rendered contractors or others, and paid you from time to time against that account, they have testified falsely?

Mr. BOLLING. Absolutely, sir.

Mr. KELLEY. And when you got this anonymous letter, the first one, was about the 1st of October, as I recollect it?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. It had something to say about the Commercial Bank?

Mr. BOLLING. I think it did; yes.

Mr. KELLEY. Yes.

Mr. BOLLING. I think it did.

Mr. KELLEY. Your brother was in the bank there?

Mr. BOLLING. No, sir.

Mr. KELLEY. When did he go into the bank?

Mr. BOLLING. Around November, 1918.

Mr. KELLEY. And was Mr. Sands in the bank?

Mr. BOLLING. Mr. Sands was in the bank, too, I should say, up to the middle of October. That I could establish.

Mr. KELLEY. All that Mr. Sands had attempted to have you do up to that time was to have you use your influence with somebody

to let him off—be easy on the matter of the violation of the law—was it?

Mr. BOLLING. That is right, sir.

Mr. KELLEY. There was no special feeling between you; you were under no special obligation to be there?

Mr. BOLLING. None, except that he had always been a friend of mine, and I would like to have helped him, sir.

Mr. KELLEY. When you got an anonymous letter in which they speak about \$40,000 and the record of it being at the bank, why did you not call Mr. Sands right on the phone and say, "What is it about this \$40,000?"

Mr. BOLLING. That is probably what I should have done, sir.

Mr. KELLEY. How could you escape doing that, Mr. Bolling? Here was a letter sent to the Secretary of the Treasury, or to the Secretary of the President, in which it was definitely stated that the \$40,000 was being divided, and you were being a beneficiary of that division, and named the bank where the record of it was kept, and that Mr. Sands was involved in it, and that you never called him up to see what the \$40,000 was about, even.

Mr. BOLLING. I do not know that that first letter gave the record of the bank; I do not think it did.

Mr. KELLEY. Did you ever talk to Mr. Sands about this \$40,000 at all?

Mr. BOLLING. Absolutely not, sir.

Mr. KELLEY. You never asked him what the explanation of it was?

Mr. BOLLING. No, sir.

Mr. KELLEY. Although you were accused of getting a quarter of it?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. You never said, "Mr. Sands, what did you get this \$40,000 for?"

Mr. BOLLING. No.

Mr. KELLEY. As treasurer of the Shipping Board, would it not be rather incumbent upon you to know if Government money was being paid out in that way?

Mr. BOLLING. I was not treasurer then; I was assistant treasurer.

Mr. KELLEY. Did you call Mr. Tweedale's attention to the fact that it was alleged that there was on record in the Commercial National Bank evidence which would show that Mr. Sands got \$40,000 from one of the contractors to whom the Government was advancing money in large quantities?

Mr. BOLLING. I told Mr. Tweedale of the \$40,000.

Mr. KELLEY. Immediately?

Mr. BOLLING. Yes, sir; as soon as it came in.

Mr. KELLEY. And here was Mr. Sands, one of the best friends you had ever had, as you supposed, you have been doing business with him right along, had borrowed large sums and small sums from him, and he had helped you and you had helped him, and you were implicated in a proposition of \$40,000, and from that day to this you have never asked him what the \$40,000 transaction was about?

Mr. BOLLING. No, sir; I have not.

Mr. KELLEY. You do not know now what it was for?

Mr. BOLLING. No, sir.

Mr. KELLEY. Did not the treasury department of the Shipping Board have any interest in this \$40,000?

Mr. BOLLING. I do not believe that it did, from this letter. There is what I think it was for—for furnishing that credit.

Mr. KELLEY. Was that letter truthful?

Mr. BOLLING. This letter [exhibiting paper]?

Mr. KELLEY. Yes.

Mr. BOLLING. I imagine so, sir.

Mr. KELLEY. Are you sure?

Mr. BOLLING. How do you mean?

Mr. KELLEY. Does it state the truth there, that he did establish for them on that date——

Mr. BOLLING. So far as I know——

Mr. KELLEY. Or had established the credit of \$40,000 there?

Mr. BOLLING. So far as I know; yes, sir.

Mr. KELLEY. You do not know that it is not true?

Mr. BOLLING. No, sir.

Mr. KELLEY. The evidence is, is it not, that it is not true?

Mr. BOLLING. The credit was established or is established; that I know.

Mr. KELLEY. Do you know when?

Mr. BOLLING. I imagine on that date, sir.

Mr. KELLEY. You would be surprised if you found that that was not the case?

Mr. BOLLING. I would, sir.

Mr. KELLEY. Would you be surprised that the credit which was supposed to have been given was a sum of money put in the savings department, where these people could not touch it at all, and was really not a credit?

Mr. BOLLING. Yes; I would.

Mr. KELLEY. As treasurer or assistant treasurer, if a sum of money was being bandied about like that, which involved the very institution for which you were working, it does seem as though, Mr. Bolling, with all due respect to your position as treasurer of this institution, that you should have taken it up with your superior officers to find out what that money was being put out in that manner for.

Mr. BOLLING. If I had had anything to do with this letter—you say this letter? You see this letter went to the Construction Division, not to me.

Mr. KELLEY. What is the date of that letter?

Mr. BOLLING. March 15, 1918.

Mr. KELLEY. When was this contract made?

Mr. BOLLING. March 14, I think it was dated, sir.

Mr. KELLEY. The contract was made the day before the credit?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. And when were these notes in controversy dated?

Mr. BOLLING. I do not know.

Mr. KELLEY. You have never seen them?

Mr. BOLLING. I have never seen them.

Mr. KELLEY. You never inquired about them?

Mr. BOLLING. I never have.

Mr. KELLEY. It seems to me that if a transaction concerned one so closely as this did you that you would have been much better off,

Mr. Bolling, if you had found out all about this transaction at the time it first came to your attention.

Mr. BOLLING. I would have found out if I had not gone away, sir; but I went away.

Mr. KELLEY. But you have been back a long time now.

Mr. BOLLING. Yes; I have.

Mr. KELLEY. And you have never taken it up since you came back?

Mr. BOLLING. No.

Mr. KELLEY. You never asked Sands, "What about this \$40,000?"

Mr. BOLLING. No.

Mr. KELLEY. Although you have talked with him over and over and over?

Mr. BOLLING. No; I have not talked with him over and over and over. I think I have only talked with Mr. Sands once in the last two years or year and a half.

Mr. KELLEY. When was the first time you knew there was talk about \$40,000 being split four ways?

Mr. BOLLING. About May or June of this year.

Mr. KELLEY. I thought you got that in the anonymous letter?

Mr. BOLLING. Of course, I got it in the anonymous letter. But you said "talk being bandied about." Yes; I did get it from the anonymous letter, and turned it over to the Department of Justice.

Mr. KELLEY. And they never came to see you about it, even?

Mr. BOLLING. No, sir; they did not; I went to see them.

Mr. KELLEY. And then they dropped it?

Mr. BOLLING. I do not know what they did with it. I asked them to make an investigation of it at the time.

Mr. KELLEY. But after that you did not hear any more about it?

Mr. BOLLING. Yes, I did; I heard that they had looked into it and decided there was nothing to it; they had gone all through Sands's checks and papers to me, and they did not find anything.

Mr. KELLEY. Was there a report made to your department to that effect?

Mr. BOLLING. No, sir.

Mr. KELLEY. Where did you get any such idea as that?

Mr. BOLLING. From Mr. Thompson.

Mr. KELLEY. That they had gone through Sands's checks?

Mr. BOLLING. I asked Thompson to go through Sands's checks and papers to see whether he did it.

Mr. KELLEY. Did he ever say to you that he did?

Mr. BOLLING. He did, sir.

Mr. KELLEY. Of course, this involves quite a good period of time, Mr. Bolling.

Mr. BOLLING. Yes, sir.

Mr. KELLEY. And I know it is easy to be mistaken sometimes on the spur of the moment; but I want to be sure whether Thompson ever told you that he went through Sands's checks.

Mr. BOLLING. Yes, sir; he said he had given orders that they be gone through.

Mr. KELLEY. Did he say they had been gone through?

Mr. BOLLING. Yes, sir; he told me they had been gone through and that there was nothing to it.

Mr. KELLEY. So far as you can recollect, in all these various transactions with Sands he never paid you in anything but checks, did he?

Mr. BOLLING. So far as I can remember, he did not, sir.

Mr. KELLEY. These deposits for \$300 and \$200 and \$100——

Mr. BOLLING. Yes, sir.

Mr. KELLEY (continuing). You wrote on those in lead pencil, "Sands."

Mr. BOLLING. Yes, sir.

Mr. KELLEY. That was some time subsequent, of course.

Mr. BOLLING. Oh, yes, sir.

Mr. KELLEY. How were you able to identify these deposit slips as the money from Sands?

Mr. BOLLING. Because I had a memorandum on the book—in the back of my check book, on the pasteboard binder, of the dates that those amounts were paid on account of what Sands owed me. I do not think I have that book with me.

Mr. KELLEY. I just wanted to have that in the record, that is all, because we did not make that quite clear this morning.

Mr. BOLLING. I kept the record in the back of my check book on the pasteboard binder, the date that Sands gave me the money, starting with February 18 and winding up with August 5.

Mr. KELLEY. And that closed up the house transaction?

Mr. BOLLING. That closes it, except for \$900 he still owes me.

Mr. KELLEY. That is not due yet?

Mr. BOLLING. No; not until January. I do not say he owes me; I accepted the note, and I indorsed it.

Mr. KELLEY. He has taken care of the notes along, as you have indicated in that statement?

Mr. BOLLING. Yes; except the last two times I think he curtailed every time.

Mr. KELLEY. I suppose the statement that you would have thrown off \$4,000 from that house contract matter was a little extravagant, was it not, this morning?

Mr. BOLLING. I do not believe that I could afford to have done that.

Mr. KELLEY. You used a figurative expression to show good will toward Sands?

Mr. BOLLING. No; there was no good will that night. They were most unreasonable about the settlement.

Mr. KELLEY. That was away back in 1916?

Mr. BOLLING. Yes, sir. We came very near having a split up on that settlement.

Mr. KELLEY. You really never expected to get this \$600 for the extras?

Mr. BOLLING. That night I thought it was gone, but when he told me that he would pay it eventually I did expect to get it; yes, sir.

Mr. KELLEY. That was in the fall of 1916.

Mr. BOLLING. Yes, sir.

Mr. KELLEY. And he never paid that until these three amounts were paid in 1918.

Mr. BOLLING. That is correct.

Mr. KELLEY. Nearly two years later?

Mr. BOLLING. Pretty nearly.

Mr. KELLEY. Is Mr. Sands a man of means?

Mr. BOLLING. No, sir; I do not think so.

Mr. KELLEY. Were you surprised that he should pay you in dribblets in \$300 and \$200 and \$100?

Mr. BOLLING. No, sir; I was not.

Mr. KELLEY. And these were all handed to you at the time, kind of out of a clear sky?

Mr. BOLLING. No, sir; I went there and requested it.

Mr. KELLEY. After the first one?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. Or all of them?

Mr. BOLLING. All of them; when I needed it I went there and asked if he couldn't pay me something—pay it all; if he had paid all I would have been better satisfied.

Mr. KELLEY. Then, the fact is, his indebtedness was restored back there in March some time, was it, when he offered to divide this—

Mr. BOLLING. No, sir; it was restored within, I should say, a week or two after the settlement on the house.

Mr. KELLEY. I know, but up to that time you never had thought to ask him for it, although you were quite in need of money at different times?

Mr. BOLLING. I may have asked him for it, but he mentioned it several times in those two years.

Mr. KELLEY. Why did you not say, "Why don't you pay that instead of talking about it?"

Mr. BOLLING. I probably did.

Mr. KELLEY. But he never did?

Mr. BOLLING. He never paid it; no, sir.

Mr. KELLEY. But after this bending-roll transaction was out of the way, why, then, he said, "I am going to pay you this," and then you had to ask him for it after that, did you?

Mr. BOLLING. I had to ask him for it after that; that is right, sir.

Mr. KELLEY. And then he gave you only \$300 the first time?

Mr. BOLLING. That is right.

Mr. KELLEY. And then you went back and got \$200?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. And then finally he paid you \$100 and closed it up?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. Do you know whether or not any of your superior officers called in Mr. Downey to know what he paid these \$40,000 of notes for?

Mr. BOLLING. I do not.

Mr. KELLEY. How could anybody investigate this case, Mr. Bolling, without knowing what those notes were paid for—without knowing what those notes were given for, and investigate it, really?

Mr. BOLLING. I do not believe they could, sir.

Mr. KELLEY. If one were really going to investigate this matter, the first thing he would do, if he was going at it in dead earnest, would be to find out why those notes were given.

Mr. BOLLING. I should think so.

Mr. KELLEY. But that has been established to the satisfaction of your superior officers somewhere.

Mr. BOLLING. I understand—I have read in the paper—

Mr. KELLEY (interposing). You understand what?

Mr. BOLLING. I have read it in the paper.

Mr. KELLEY. That it was established?

Mr. BOLLING. That it was established.

Mr. KELLEY. To their satisfaction?

Mr. BOLLING. It did not speak of it in that way, but that the amount of money was paid for the credit.

Mr. KELLEY. Ought it to be necessary for a man who has had a great contract with the Government, involving \$15,000,000 a year before this, and who was carrying it out satisfactorily, if he was, to have to go to a bank in Washington and pay \$40,000 for a letter like that, without a word of truth in the letter?

Mr. BOLLING. It ought not to, sir.

Mr. KELLEY. Do you know whether or not anybody in the Shipping Board ever went to the bank to see whether this credit had been placed there?

Mr. BOLLING. I think Mr. New there [indicating] knows all about that, sir.

Mr. KELLEY. Was Mr. New at the head of the Credit Division when this letter was written?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. Would it strike you, as treasurer of the Shipping Board, that it might be a little strange for a firm doing business in New York and all of its banking connections in New York to have to get a letter of credit from a bank in Washington, where they had not been doing business at all?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. That would be a strange thing, would it not?

Mr. BOLLING. Yes.

Mr. KELLEY. Would it not excite your suspicion?

Mr. BOLLING. I think it did Mr. New's; I think he had several letters on the subject.

Mr. KELLEY. But the contract was let about this time?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. But you think this letter did not have anything to do with the letting of the contract?

Mr. BOLLING. I think it had everything to do with it.

Mr. KELLEY. Oh, you do?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. We can inquire about that from Mr. New, can we?

Mr. BOLLING. He knows that story; I had nothing to do with it?

Mr. KELLEY. Was Mr. Tweedale treasurer at that time?

Mr. BOLLING. Oh, no, sir.

Mr. KELLEY. Who was treasurer then?

Mr. BOLLING. March, 1918?

Mr. KELLEY. Oh, I understand now.

Mr. BOLLING. Now, wait. I can—I think it was around that time that George T. Smith came in as treasurer. After Mr. Smith got out Mr. Waldo S. Todd was treasurer; after Todd, Mr. Alonzo Tweedale was treasurer.

Mr. KELLEY. He was the first real treasurer you had at all?

Mr. BOLLING. I do not know about that. [Laughter.] He was a very good treasurer.

Mr. KELLEY. I did not say he was the only one, you understand.

Mr. BOLLING. He was a very good treasurer.

Mr. KELLEY. As banking examiner or as assistant bank examiner, you would be under the Comptroller of the Currency, as I recollect the law?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. And Mr. Sands was having this trouble with a bank examiner?

Mr. BOLLING. Yes.

Mr. KELLEY. Do you know the name of the bank examiner who was—whom he was having the trouble with?

Mr. BOLLING. I know who was examining the Commercial Bank; yes, sir.

Mr. KELLEY. Who was?

Mr. BOLLING. Mr. Trimble.

Mr. KELLEY. Did you know him personally?

Mr. BOLLING. I have met him since, but I do not think I knew him at that time.

Mr. KELLEY. Of course, you knew Mr. Williams, the Comptroller of the Currency?

Mr. BOLLING. I know Mr. Williams; not well.

Mr. KELLEY. I should have thought if Sands was going to get you to help him at all, that he would have had you intercede with Mr. Williams rather than with Senator Owen or somebody else.

Mr. BOLLING. Yes; I think that Mr. Sands had—the feeling was very tense between Sands and Williams at the time. I think he blamed Mr. Williams for it.

Mr. KELLEY. So that there was no suggestion at any time that you see Mr. Williams about it?

Mr. BOLLING. No, sir.

Mr. KELLEY. But how could the President help in a matter like this?

Mr. BOLLING. I do not know.

Mr. KELLEY. What did Sands want you to do?

Mr. BOLLING. Well, I suppose he thought the President could stop anything.

Mr. KELLEY. That is pretty nearly true, so far as matters of this kind are concerned, if he saw fit to interfere?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. But it would hardly be likely that the President would interfere with the inspection or examination of a bank, and so it would be an unreasonable thing to expect you to see him about it.

Mr. BOLLING. That is the way it struck me, sir.

Mr. KELLEY. What did he say he wanted you to go to Senator Owen for?

Mr. BOLLING. I do not know what he said. I told him that I did not know Senator Owen. He said, "Come right over here. I want you to hear this, what I want you to say." And then he launched on this attack on the examiner, saying they were persecuting him, and that they had a spite against him, and this and that and the other. I imagine he wanted me to hear that and be there so that he could ask me to go to the President, and that I would understand the matter so that I could talk to the President about it.

Mr. KELLEY. Did he indicate that if you went with him to see Senator Owen, because of your relation with the President, that he might get a more favorable hearing there?

Mr. BOLLING. No, sir; he did not.

Mr. KELLEY. However, that probably was the reason why he wanted you to go, was it not?

Mr. BOLLING. I suppose so.

Mr. KELLEY. He was using the personal relationship?

Mr. BOLLING. I imagine he thought my being there would be helpful with Senator Owen.

Mr. KELLEY. Otherwise he would not have taken you along?

Mr. BOLLING. Otherwise I certainly did not do him any good. I did not know what he was talking about.

Mr. KELLEY. And Owen said he would do anything he could?

Mr. BOLLING. Mr. Owen, I imagine, felt very sorry for him.

Mr. KELLEY. It was simply another way of saying he would do anything right in the premises?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. Just the same as you said you would do anything you could, meaning you would do anything that was right?

Mr. BOLLING. That I could do properly; yes, sir.

Mr. KELLEY. What makes you think these letters came from Sands or Mrs. Sands?

Mr. BOLLING. Simply that they are the only people who had any motive for sending them.

Mr. KELLEY. Why would Mr. Sands tell newspaper reporters that you were implicated in this in any way, hoping to benefit himself?

Mr. BOLLING. That is the part I can not understand, sir. I have a theory on the subject, if you would like to hear it.

Mr. KELLEY. Yes; I would like to hear that.

Mr. BOLLING. My theory is that Mr. Sands mentioned this in some way, connecting my name with this, though he never had any idea of going through with it, but that it got to somebody else, and that they went to these newspaper men, and that the newspaper men went down to see Sands, and that he could not back out of it. He tried to, but it was too late.

Mr. KELLEY. Who carried this story to the newspaper men?

Mr. BOLLING. I understand that Mr. Schwarzkopf and Mr. McCann did.

Mr. KELLEY. They are the newspaper men?

Mr. BOLLING. Yes.

Mr. KELLEY. They are the newspaper men?

Mr. BOLLING. Yes; those are the ones—did you say to Mr. Sands?

Mr. KELLEY. Oh, no.

Mr. BOLLING. I thought you did, sir.

Mr. KELLEY. Who carried this story to the newspaper men in the first place, from Sands?

Mr. BOLLING. I understand that Mr. Fuller did.

Mr. KELLEY. And Fuller was the man who testified that he saw you receive a check?

Mr. BOLLING. Yes, sir. And I do not believe that Sands ever intended to go through with the thing, but that they got that much of it there, and he could not back out, except that eventually he refused to do it.

Mr. KELLEY. He even went to the trouble of interlining that affidavit to make it conform to the exact facts?

Mr. BOLLING. Yes.

Mr. KELLEY. Why should he need to do that? He is a banker, a prominent man, and a man of responsibility.

Mr. BOLLING. No; he was not at that time, sir. He was not a banker nor a man of responsibility.

I do not know what occurred there, but I do not believe that Sands knew they had any photostatic copies of this thing, and that he tore up the original and thought he could lie as well as the rest of them.

Mr. KELLEY. Mr. Sands testified that he still has that original copy.

Mr. BOLLING. He may have; I do not know. I say it is all a supposition on my part.

Mr. KELLEY. On the theory that he was going to use this as a club over you, Mr. Bolling, the minute he told newspaper men about it his club was gone, was it not?

Mr. BOLLING. That is what I thought.

Mr. KELLEY. And still I am in the dark, then, to know why you think he just conjured this story up to hurt you, who had always been his friend. A man will do things if there is a motive for doing it, sometimes.

Mr. BOLLING. I think it is very plain, sir. I do not think he ever meant to.

Mr. KELLEY. You think, in the first place, he meant to fix up a story which would only get to you and frighten you?

Mr. BOLLING. That is it.

Mr. KELLEY. Why could he not have told you right off the reel himself?

Mr. BOLLING. He could have.

Mr. KELLEY. And saved any possibility of having it get out.

Mr. BOLLING. Yes.

Mr. KELLEY. He did not do that.

Mr. BOLLING. Evidently not.

Mr. KELLEY. He never said to you, "Mr. Bolling, you go and see the President about this, or I will issue a story that will draw you into this, too."

Mr. BOLLING. Not in those words.

Mr. KELLEY. Did he, in effect?

Mr. BOLLING. Yes; he said my name would be brought into it.

Mr. KELLEY. Brought into what?

Mr. BOLLING. Into this matter.

Mr. KELLEY. Into the matter that he was indicted for?

Mr. BOLLING. Oh, no, sir.

Mr. KELLEY. Into what matter?

Mr. BOLLING. I would assume he meant this bending roll matter.

Mr. KELLEY. Did he say to you ever, that he had paid you for those bending rolls?

Mr. BOLLING. No, sir; he did not—he did not use it as a threat.

Mr. KELLEY. Of course, before your brother went to the bank he might have been a little hesitant about inquiring about any records at the bank, about this \$40,000. But after your brother went to the bank, then did you inquire of him what this \$40,000 transaction was?

Mr. BOLLING. I told him about the \$40,000 transaction.

Mr. KELLEY. He says, "The record of which is at the bank." Did you ask him to look up the records of the bank to see?

Mr. BOLLING. No, sir; he gave me that letter himself.

Mr. KELLEY. Did you say to your brother, "What is the record at the bank that is mentioned in here?"

Mr. BOLLING. I do not know that I did, sir.

Mr. KELLEY. You see this letter starts off, "Ask Bolling of the Shipping Board about the \$40,000 he received from the Dooling Shipbuilding Co., of which a record is in the book of the Commercial Bank in the District of Columbia." You never have asked your brother whether or not there was any record of any such transaction in the bank?

Mr. BOLLING. I do not remember ever asking him. He probably knows whether it was there or not.

Mr. KELLEY. Were you not anxious to get at the bottom of this thing, Mr. Bolling, and expose the motive for this letter and protect yourself?

Mr. BOLLING. Yes; that is just what I was trying to do, sir.

Mr. KELLEY. What steps have you taken, Mr. Bolling, that you think are at all commensurate with the necessities of the case?

Mr. BOLLING. I reported it to the Department of Justice; telling Admiral Benson, telling Mr. Tweedale.

Mr. KELLEY. That was because you felt that in the confidential relation where you stood, you did not want anybody to be deceived and have this sprung on them at some time, at an inopportune moment. That was, of course, proper and necessary protection. But what I mean is, what steps did you take to get at the motive for this kind of a letter.

Mr. BOLLING. I have just said that I took it to the Department of Justice. I do not see any higher steps that I could have taken. My Lord, if the Department of Justice can not find out, who could? They had everything I had; and they had a request from me to investigate it.

Mr. KELLEY. I understand that that was for your protection. You wanted them to know that you were not guilty of anything of this kind. But, were you not interested in finding out what was back of all this?

Mr. BOLLING. I do not believe all of that.

Mr. KELLEY. You had two great reasons, of course, for wanting to have this cleared up and set right.

Mr. BOLLING. Yes, sir.

Mr. KELLEY. I understand you to say you were not censuring the committee for trying to find out what was back of it?

Mr. BOLLING. No, sir. I wish you would go to the bottom of it; you can not go too far now.

(At this point the committee took a recess for five minutes.)

The CHAIRMAN. I notice that some of these sheets and the bank statements contain the name of yourself, and also Elinore Louise Bolling?

Mr. BOLLING. Yes, sir; that is my wife.

Mr. KELLEY. Did you have a joint account?

Mr. BOLLING. I think I opened it jointly during that period.

The CHAIRMAN. Did you have any other bank account in Washington or elsewhere?

Mr. BOLLING. None, except one with my brother-in-law. We are interested in a piece of property together, sir. That account has been there with the Commercial Bank, too, all the time. I will be glad to give you those statements also.

The CHAIRMAN. Was that account in existence during the period for which these statements were made?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Did you ever deposit money in any special account or in any other name than your own?

Mr. BOLLING. No, sir.

The CHAIRMAN. You carried no bank account here in New York?

Mr. BOLLING. No, sir; nowhere else; that is the only bank account that I have in the world, except the one with Mr. Clark, my brother-in-law, and I would be very glad to furnish statements for that account. But it is nothing but the rentals from this piece of property—no personal funds.

The CHAIRMAN. Did Mr. Beckerly ever discuss the White Haven settlement with you?

Mr. BOLLING. Mr. Beckerly came in to see me. I do not know that he ever discussed it except to express a hope that Robertson would get a settlement.

The CHAIRMAN. Is Mr. Beckerly interested in the White Haven Co., do you know?

Mr. BOLLING. I do not know, sir.

The CHAIRMAN. What was he discussing it with you for? What did he know about it, or what was it about the White Haven matter that led him to talk to you about it?

Mr. BOLLING. I told him that I did not want to talk about it; that it was none of my business. He simply said—expressed the hope that the settlement could be made. I do not know that he ever discussed it with me in detail. I know nothing about the White Haven matter.

The CHAIRMAN. Did he ask you to do anything about it?

Mr. BOLLING. No, sir.

The CHAIRMAN. Did Mr. Beckerly ever tell you he talked with Mr. Meehan?

Mr. BOLLING. I can not recall it.

The CHAIRMAN. Did he ever tell you that he talked with Mr. Fisher, the investigator of this committee?

Mr. BOLLING. No, sir.

The CHAIRMAN. Now, Mr. Beckerly has talked with you?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Did he talk with you before or after you had talked with Mr. Meehan about this story?

Mr. BOLLING. Oh, I think before, sir.

The CHAIRMAN. Has he talked with you since?

Mr. BOLLING. Not that I can recall, sir—certainly not in regard to that, if he has.

The CHAIRMAN. Not in regard to what?

Mr. BOLLING. To the White Haven matter.

The CHAIRMAN. Has Mr. Beckerly talked to you since you talked with Mr. Meehan with reference to this story or report that has been circulated about you?

Mr. BOLLING. No, sir.

The CHAIRMAN. Mr. Bolling, I am not just clear as to when Mr. Sands offered to divide this commission with you for the bending rolls, or when he offered to take care of you, with reference to this letter that you wrote him that you could not intercede with the President for him.

Mr. BOLLING. That is in regard to the bending roll proposition—when he offered?

The CHAIRMAN. Yes.

Mr. BOLLING. I should say, sir, it was around the 1st of February, 1918; if my memory serves me, that was about the time.

The CHAIRMAN. Was that the only time he ever mentioned it to you?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. I understood you this morning to say that you had borrowed money from Mr. Sands and had given him no notes.

Mr. BOLLING. I beg your pardon, sir. If I said that, I must have misunderstood.

The CHAIRMAN. I asked you the following questions this morning, according to the stenographic report; now, if this is incorrect, I desire to give you an opportunity to correct it [reading]:

The CHAIRMAN. Why didn't you ask him for a further payment on account?

Mr. BOLLING. I should have. I have thought of that same thing myself, sir, but I don't know why I didn't or why that transaction took place. Mr. Sands had loaned me money from time to time, very often, he was my banker; I had no other bankers. I have had hundreds of transactions with him personally and in his capacity as an officer of the bank, and Sands had loaned me money often without anything.

The CHAIRMAN. Without any security?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Or without a note?

Mr. BOLLING. Yes; he had.

Mr. BOLLING. I meant that in regard to securities, sir. I do not think Mr. Sands has ever loaned me money without notes.

The CHAIRMAN. I asked you "Or without a note?" and you said, "Yes; he had." You desire to correct that?

Mr. BOLLING. I desire to correct that; yes, sir.

The CHAIRMAN. He has never loaned you any money for which you have given no note?

Mr. BOLLING. That is right, sir.

Mr. KELLEY. And as to the loan upon a note, he has not made any loans since the 14th of March, 1918, except those you have advised the committee of?

Mr. BOLLING. Except for the \$300 loan.

Mr. KELLEY. That you have spoken of?

Mr. BOLLING. Yes; the \$300 loan.

The CHAIRMAN. That is May 21, 1918?

Mr. BOLLING. Yes, sir; May 21, 1918, \$300.

The CHAIRMAN. Do you know what this \$3,500 was, December 9?

Mr. BOLLING. This note [referring to paper]; I was late paying the interest and giving a new note for it. Therefore, they charged up both sides, I notice. They had the new note that I gave to offset that, you see, sir. It is put in here as a check and is put in here to balance it out, the difference being the interest, I imagine, sir.

The CHAIRMAN. That was this note that has been running for some years?

Mr. BOLLING. One of the notes; yes, sir. You notice there is a debit and a credit there.

The CHAIRMAN. Yes; I noticed that.

Mr. BOLLING. You will find one other case of that kind in there, sir, I think.

The CHAIRMAN. What was the deposit of \$2,600 February 17?

Mr. BOLLING. Let me look at that, sir. [After examining bank statements, and examining stub of check book.] That is in 1919, I think, or is it 1918? Of course, there is no date on these things.

The CHAIRMAN. That is marked "1918"?

Mr. BOLLING. Wait a minute. You see, that is "November, December," and then it runs over into 1919. But I can tell you what that is, if you like.

The CHAIRMAN. No; that is 1919?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. What is the deposit on October 10 of \$1,400?

Mr. BOLLING. That is a discount with the National Metropolitan Bank in Washington. I put up security and borrowed \$1,400 from them, and redeposited it in the Commercial National—"Deposited Loan Metropolitan National in the Commercial National October 12." I put that in this book [referring to stub of check book]. That discount was at another bank, and I took it around to my bank.

The CHAIRMAN. Have you had any loans during this period with other banks which you have paid?

Mr. BOLLING. I had a loan with the Farmers & Mechanics' National Bank in Georgetown for \$13,250. I have collaterals up for that. That loan has stood there since, I think, 1913. I moved that loan to the National Metropolitan Bank a short while ago, sir—just got the National Metropolitan Bank to take the loan up.

The CHAIRMAN. Did you have any loans outstanding with individuals during that time which you paid?

Mr. BOLLING. No, sir; none.

The CHAIRMAN. Did you owe any money to individuals or to anybody or company or corporation during this time which you paid?

Mr. BOLLING. Not to amount to anything, sir. I may have borrowed \$200 or \$300 from my brothers, but nothing more than that.

The CHAIRMAN. Were you interested in any other concern, firm, or corporation for business transaction during this particular time?

Mr. BOLLING. I was interested in another concern—a woodworking concern—the J. B. Henderson Co.

The CHAIRMAN. Where was that?

Mr. BOLLING. That was in Washington, sir; and we also had our account at the National Metropolitan and one with the Commercial National. That concern was also needing money rather than getting it. It has never paid, and I am now out of that.

The CHAIRMAN. Had you loaned any money?

Mr. BOLLING. Not personally; no, sir.

The CHAIRMAN. Up to this time had you loaned anybody any money?

Mr. BOLLING. No, sir.

The CHAIRMAN. Were you an officer of that concern or just a stockholder?

Mr. BOLLING. Just a partner, you might say.

The CHAIRMAN. A partner?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Were you connected in any other way with any other corporation or firm?

Mr. BOLLING. No, sir; not during that period.

The CHAIRMAN. Or partnership during that period?

Mr. BOLLING. No, sir.

The CHAIRMAN. Are you now?

Mr. BOLLING. I am connected with a little company that organized not long ago. We called it the "Pan-American Importing Co." We organized that company to bring manganese ore up from Brazil when the manganese was so scarce. But we never succeeded in accomplishing a contract with anybody to buy it. So we have never brought in any.

The CHAIRMAN. When was that formed?

Mr. BOLLING. That was started about—I think about June of this year, sir.

The CHAIRMAN. It does not operate any ships or anything of that sort?

Mr. BOLLING. Oh, no.

The CHAIRMAN. It is just an importing company?

Mr. BOLLING. Yes, sir. I think everybody who has put anything in it has lost everything they put in.

The CHAIRMAN. How much did you put in that, Mr. Bolling?

Mr. BOLLING. I put in \$500.

The CHAIRMAN. But you have not imported anything?

Mr. BOLLING. No, sir. But the company is still in existence.

The CHAIRMAN. Is it a corporation or a partnership?

Mr. BOLLING. It is incorporated.

The CHAIRMAN. Are you an officer?

Mr. BOLLING. No, sir.

The CHAIRMAN. Just a stockholder?

Mr. BOLLING. Just a stockholder. Well, I was elected on the board of directors; yes, sir.

The CHAIRMAN. Is it a Washington corporation?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Who is connected with that?

Mr. BOLLING. Mr. Rudolph Kauffman, of the Evening Star; Mr. Joseph Davies; Mr. Martin—I do not know his initials; I can not think of the other gentlemen. I did not know a lot of them.

The CHAIRMAN. Is Mr. Davies, whom you mentioned, the chairman of the Federal Trade Commission—was he or is he?

Mr. BOLLING. I think he was connected with the Federal Trade Commission formerly; yes, sir.

The CHAIRMAN. After Mr. Tumulty showed you this anonymous letter which you destroyed, did you ever have any further talk with him about the matter?

Mr. BOLLING. Not until lately, sir.

The CHAIRMAN. How lately?

Mr. BOLLING. Well, I would say since June.

The CHAIRMAN. What was the occasion of your talking with him since June?

Mr. BOLLING. When I heard that this supposed affidavit had come out, sir.

The CHAIRMAN. What did you talk with him about?

Mr. BOLLING. I simply went over to consult with him about it.

The CHAIRMAN. What about?

Mr. BOLLING. About this affidavit.

The CHAIRMAN. To get his advice?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Did he advise you?

Mr. BOLLING. He advised me to do nothing; just to leave it alone.

The CHAIRMAN. How many times did you talk with him?

Mr. BOLLING. I think only once, sir.

The CHAIRMAN. And did you recall the incidents of the anonymous letter when you talked with him at that time?

Mr. BOLLING. I have no doubt that I did, sir.

The CHAIRMAN. Did you show him this other anonymous letter that Mr. McAdoo had received?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. Can you think of any other person to whom you have shown that anonymous letter, Mr. Bolling?

Mr. BOLLING. I have shown it to very few people, sir.

The CHAIRMAN. To Mr. Tweedale?

Mr. BOLLING. To Mr. Tweedale.

The CHAIRMAN. Mr. Meehan?

Mr. BOLLING. To Mr. Meehan.

The CHAIRMAN. Admiral Benson?

Mr. BOLLING. I do not know that I showed it to the Admiral; I mentioned it to him.

The CHAIRMAN. Mr. Gillen?

Mr. BOLLING. To Mr. Gillen; and Mr. Tumulty, my brother, and I think that is all, sir, practically.

The CHAIRMAN. At the time Mr. Sands came to you and said he wished to take care of you on the bending roll transaction, and you refused to let him do it, if he had pulled out \$600 cash at that time and offered it to you, would you have felt like taking it?

Mr. BOLLING. I absolutely would not, sir—would not have taken it.

The CHAIRMAN. What would have been the objection to your taking it then?

Mr. BOLLING. I would have felt that it had some connection with what he had gotten. As I say, I do not know that Sands ever got this money.

The CHAIRMAN. No, sir; but he told you he had.

Mr. BOLLING. The only truthful thing in the whole thing he has lied about, if the newspaper quotation is correct. He says he does not remember this transaction. That is the only thing there is any truth in, and he says he does not remember it. I may be wrong, but the newspapers quoted him as saying that.

The CHAIRMAN. Do you know where Mr. Cranor is now?

Mr. BOLLING. No, sir; I do not.

The CHAIRMAN. When was the last time you saw him? I think probably I asked you that before.

Mr. BOLLING. The day before yesterday, sir, I think was the last time I saw him.

The CHAIRMAN. Where?

Mr. BOLLING. In Washington.

The CHAIRMAN. Did you talk with him about this matter?

Mr. BOLLING. I received a long distance telephone message from the chief operator of the Shipping Board in New York stating Mr. Cranor had come in and asked her to tell me that he was coming to Washington and wanted to see me. Mr. Cranor came to Washington, but I would not see him alone. I got Mr. Tweedale to go with me. Mr. Tweedale at the time was upstairs, and I went up and got him before I went into my office. Mr. Cranor was waiting there when I got down in the morning. And Mr. Cranor went in to this whole matter. I have Mr. Tweedale's statement here. I could read it into the record, sir.

The CHAIRMAN. We are going to ask Mr. Tweedale to testify, Mr. Bolling.

Mr. BOLLING. Yes, sir.

The CHAIRMAN. But if you want to refresh your recollection about it you may do so.

Mr. BOLLING. No, sir; I do not.

Mr. KELLEY. Now, Mr. Bolling, the effect of your testimony is that this story of Sands is false?

Mr. BOLLING. Absolutely.

Mr. KELLEY. In so far as it implicates you?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. And your theory is that it has something to do—that it was a sort of a holdup proposition with reference to his indictment against him?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. That it was a sort of a club to be used over you to force you to obtain assistance from parties high in authority?

Mr. BOLLING. Yes, sir.

Mr. KELLEY. Do you know of any other reason of any kind which would furnish an additional motive of any sort for Mr. Sands to fabricate a story involving a man of your reputation and standing and official position?

Mr. BOLLING. I do not know how Mr. Sands felt. But Mrs. Sands felt very strongly about the fact that my brother came there when Sands got out of that bank. Indeed, she felt so strongly that she sent for me and asked me to ask him not to take that position; that Mr. Sands had not been treated fairly; that they were not going to put him out of the bank if she could help it. I told Mrs. Sands just what I thought, because my brother had already refused once or twice to come—that she need have no fear, that he was not going to take that position. But, eventually, he did take it. Whether they held that against me or not I do not know.

Mr. KELLEY. From your long acquaintance, now, with Mr. and Mrs. Sands, do you think that he would be a party to a story of this kind because he was displaced in the bank by your brother?

Mr. BOLLING. No; I could not say that, sir. It might be a contributing cause, but I would not say that.

Mr. KELLEY. Do you think of any other motives—were there any financial losses of any kind that Mr. Sands sustained either on your account or on account of any member of your family which might explain it?

Mr. BOLLING. No, sir—now, there is another thing, and, of course, I do not know that Fuller is the man that went to the newspaper men. I have heard so. But there is a very strong motive there. There was

another man indicted, and who is now under sentence of four years in the penitentiary. He has nothing to lose by mixing me up, and while I never spoke to Mr. Fuller but once in my life, and Sands introduced me to him then, he might have thought in some way that this could be used in his defense.

Mr. KELLEY. You do not know that Mr. Fuller had anything to do with this story?

Mr. BOLLING. I say I do not; that is hearsay evidence. I have understood that he was the man who went to this man McCann here in New York.

Mr. KELLEY. Do you know whether or not any of the auditors of the Shipping Board may have found trace of these notes, and that it may have started in that way?

Mr. BOLLING. No, sir; I do not—I do not know that.

Mr. KELLEY. You do not know whether any one of these notes was ever charged to any contractor—charged against general expense of any contract held by the Downey people and paid actually by the Government?

Mr. BOLLING. No, sir; I do not.

Mr. KELLEY. As direct expense against a ship?

Mr. BOLLING. No, sir; I do not.

Mr. KELLEY. Who would know that?

Mr. BOLLING. I think Mr. Tweedale.

Mr. KELLEY. That is, who would be in a position to get that information?

Mr. BOLLING. Mr. Tweedale.

Mr. KELLEY. Then you do not think of any other possible motive, either growing out of your family affairs——

Mr. BOLLING (interposing). No, sir.

Mr. KELLEY (continuing). Or out of these financial transactions?

Mr. BOLLING. No, sir.

Mr. KELLEY. Over and above what you have stated to the committee?

Mr. BOLLING. No, sir.

Mr. KELLEY. That would in any way throw any light upon the motive for fabricating a story so vicious as this?

Mr. BOLLING. No, sir; I do not.

Mr. KELLEY. Against a man who occupies such a high place?

Mr. BOLLING. No, sir; I do not.

Mr. KELLEY. Mr. Bolling, you never received any of these threatening letters personally?

Mr. BOLLING. No, sir; they did not come to me personally.

Mr. KELLEY. Why do you imagine they were sent to others rather than to you at the start?

Mr. BOLLING. I imagine there are more influential people who knew it—that the more effect it would have. I imagine that is the reason, that if they should be sent to me that I would know it, but that nobody else would; that those people would ask me about it, and frighten me into going to the President.

I want to ask you, Mr. Chairman, would you put that in the record; I think you brought it out the other day [handing paper to chairman]; this is the court's copy. I would like very much to do so.

The CHAIRMAN. This is a copy of the indictment for "Forgery and uttering in the Supreme Court of the District of Columbia, criminal

division No. 2, June 30, 1920; No. 35637; United States v. Benjamin F. Fuller, alias B. Frank Fuller." You desire to have that made a part of the record?

Mr. BOLLING. I would like to have that in the record.

The CHAIRMAN. Very well; that may be put into the record at this point:

IN THE SUPREME COURT OF THE DISTRICT OF COLUMBIA, CRIMINAL DIVISION NO. 2—
JUNE 30, 1920.

United States v. Benjamin F. Fuller, alias B. Frank Fuller; No. 35637; indicted for forgery and uttering.

Come as well the attorney of the United States, as the defendant in proper person, according to his recognizance, and by his attorney, Henry E. Davis, Esq.; and thereupon the defendant's motion for a new trial and motion in arrest of judgment coming on to be heard, after argument by counsel, each said motion is by the court overruled, to which action by the court the defendant, by his said attorney, prays an exception, which is noted; thereupon it is demanded of said defendant what further he has to say why the sentence of the law should not be pronounced against him; and he says nothing except as he has already said; whereupon it is considered by the court that for his said offense, as set forth in the second count of said indictment, the said defendant be imprisoned in the penitentiary (as designated by the Attorney General of the United States) for the period of four years, to take effect from and including the date of arrival of said defendant at said penitentiary; thereupon said defendant, by his attorney, notes an appeal to the Court of Appeals of the District of Columbia from the judgment of the court in this case; whereupon the court fixes the amount of bond for costs on appeal at \$100 and the bail for the appearance of said defendant is fixed in the sum of \$3,000; whereupon the defendant enters into a recognizance in the sum of \$3,000, with George W. Ray as surety, to forthwith surrender himself to the custody of the marshal of this District to be dealt with and proceeded against according to law in case the judgment appealed from shall be affirmed, or the appeal for any cause be dismissed, or the judgment reversed and a new trial ordered, or if he, the said defendant, depart the court without leave.

Other indictments: No. 35636; indicted on October 3, 1919; forgery and uttering. [No action.]

The CHAIRMAN. You knew Mr. Fuller had had his trial, did you?

Mr. BOLLING. Yes, sir.

The CHAIRMAN. And did you also know that he had been—that is, since he had been tried and sentenced—that he had been employed by the Department of Justice to assist in investigating matters relating to allegations or charges against the packers?

Mr. BOLLING. Not until I read it in the paper.

The CHAIRMAN. Is there anything further you wish to say?

Mr. BOLLING. Nothing else, Mr. Chairman. This letter, I think you said after that, you would get it from Mr. Tweedale.

The CHAIRMAN. Yes. That is all, Mr. Bolling.

TESTIMONY OF MR. ALONZO TWEEDALE.

(Being duly sworn by the Chair, testified as follows:)

The CHAIRMAN. Your name is Alonzo Tweedale?

Mr. TWEEDALE. Yes, sir.

The CHAIRMAN. What official position do you hold with the Fleet Corporation?

Mr. TWEEDALE. I am now holding the position of general comptroller.

The CHAIRMAN. Were you with the corporation, or Shipping Board, in any other capacity?

Mr. TWEEDALE. I was appointed treasurer of the Shipping Board August 29, 1919.

The CHAIRMAN. Now, you have not testified before this committee before, Mr. Tweedale?

Mr. TWEEDALE. I have not.

The CHAIRMAN. We probably will have you again on other matters, but we desire to ask you now with reference to this particular subject: How long have you known Mr. Bolling?

Mr. TWEEDALE. I met Mr. Bolling but once before I became associated with the Emergency Fleet Corporation.

The CHAIRMAN. How long were you, you say, acquainted or had known him?

Mr. TWEEDALE. I have known him ever since August 29, 1919.

The CHAIRMAN. When first did you hear that there was a rumor or a story or a whisper going about involving him in relation to some alleged transaction between the Shipping Board and a ship-building company?

Mr. TWEEDALE. The matter was first called to my attention by Mr. Bolling shortly after I became treasurer. I do not recall the exact date; I did not charge my mind with it.

The CHAIRMAN. When did you become treasurer?

Mr. TWEEDALE. August 29, 1919. Mr. Bolling had received an anonymous letter, had it in his possession, and he came to me and told me—showed me the letter and then recited the circumstances, as he knew them.

The CHAIRMAN. What did he tell you?

Mr. TWEEDALE. He told me—that is pretty hard for me to recall just what he told me—in substance, he told me that some one, and he thought through probably his connection with Mr. Sands, was fabricating a story to the effect that he in some way had participated in some money that had been paid.

He said further that he had taken the letters, one of which had been destroyed, to the Department of Justice, and seen Mr. Houston Thompson about the matter, and Mr. Thompson had said that he would have that investigation made, and that he had had an investigation made, turning it over to the head of the Secret Service Department of the Department of Justice; that as a result of that investigation Mr. Thompson had assured him that there was not anything at all that could be found that would implicate him in any way in connection with the receiving of any money on account of his position; there was no way in which he could be implicated, not that he was charged with this, but there was no way in which he could be implicated; that the record, so far as he was concerned, that there was nothing that touched him in any way and this story which Mr. Bolling had told me about, based upon the anonymous letters.

As I recall, Mr. Bolling's idea at that time was that these anonymous letters were the result of friction that had arisen between himself and Mr. Sands, because he had not assisted Mr. Sands to some immunity from indictment—or, I don't know whether it was some indictment or before the indictment came out. I examined the letter and came to the conclusion that it was probably—that the letter was written by a woman; it looked to me as though it might be a woman's handwriting; and at the time I did not—I was busy trying to get into the Treasury the accounts which were a year behind, and I did

not give very much attention to it, except to listen to the story at that time. Later on——

The CHAIRMAN. Just before you depart from that time——

Mr. TWEEDALE. Yes.

The CHAIRMAN. Mr. Bolling was then assistant treasurer?

Mr. TWEEDALE. He was assistant treasurer; yes, sir.

The CHAIRMAN. He was to be under your jurisdiction?

Mr. TWEEDALE. He was.

The CHAIRMAN. When you became treasurer?

Mr. TWEEDALE. Yes, sir.

The CHAIRMAN. Had you heard the story from anybody else before Mr. Bolling came to you?

Mr. TWEEDALE. No; Mr. Bolling came to me first about it.

The CHAIRMAN. He came and volunteered this information?

Mr. TWEEDALE. He did.

The CHAIRMAN. Told you—that he showed you the anonymous letter?

Mr. TWEEDALE. Yes.

The CHAIRMAN. And told you that there was a story going about, and told you about it?

Mr. TWEEDALE. In regard to the story, he did not tell me very much about the story going about.

The CHAIRMAN. He did not?

Mr. TWEEDALE. No; the intimation was that here was an anonymous letter that somebody was in some way connecting his name with the transaction, and then as far as he knew anything about it, he was telling me of the general transaction, as he viewed it.

The CHAIRMAN. Yes, sir.

Mr. TWEEDALE. He, moreover, told me he had referred the matter to Houston Thompson, who was then Assistant Attorney General. Houston Thompson was a man whom I knew very well. Mr. Thompson was the leader of the Bible class at the church where I went, and I have always had a very high opinion of Mr. Houston Thompson. So the matter dragged on until it came down to somewhere near the time when I was appointed general comptroller, and in coming down to the office one morning I happened to run across Mr. Houston Thompson, and I asked Mr. Houston Thompson about this matter that Mr. Bolling had spoken to me about. Mr. Thompson said to me that he had taken great pains to go into the question and to investigate it, and that so far as Mr. Bolling was concerned there was nothing—there was no intimation that Mr. Bolling in any way, shape, or form was mixed up in any transaction of that kind; that he had it thoroughly investigated.

I asked Mr. Houston Thompson, because I knew that I was responsible for the moneys of the Fleet Corporation, and at that time I had not known Mr. Bolling until I came into the organization, and like every other prudent man, I wanted to know if there was anything at the bottom of it. Now, it was my opinion at that time that the Department of Justice maintained an efficient Secret Service Division, and this matter had been referred to the Secret Service Division, and I was assured by Mr. Thompson that they had made an investigation and found nothing, and on that I rested.

The CHAIRMAN. Did he tell you whom he saw?

Mr. TWEEDALE. He did not; he told me that he referred it to the head of the Secret Service Department of the Attorney General's Office.

The CHAIRMAN. Did he mention his name?

Mr. TWEEDALE. Yes; he did, but I have forgotten it.

The CHAIRMAN. Mr. Bielaski?

Mr. TWEEDALE. Mr. Bielaski.

The CHAIRMAN. At that time?

Mr. TWEEDALE. At that time.

The CHAIRMAN. When was this conversation with Mr. Bielaski, if you possibly recall it?

Mr. TWEEDALE. I don't know that I can; I should say that it was the beginning of—somewhere around—January, 1920; I should say it was about then.

The CHAIRMAN. Did you talk to Mr. Meehan about the matter?

Mr. TWEEDALE. I did not talk to Mr. Meehan until later. I did talk to Mr. Meehan—I talked to Mr. Meehan very fully about it. My recollection about talking to Mr. Meehan in regard to this matter is: That when I was about to be transferred from the position of treasurer to that of general comptroller—the board passed a resolution, and I might say, by the way, that I did not want the position of general comptroller of this Shipping Board, and I refused it, but they seemed to think that with the knowledge I had gained as treasurer, and the fact that I had been in the accounting business all my life, made it almost mandatory that I should take that position—and the board passed a resolution providing that I should be appointed comptroller, and that I should name my successor. I was in doubt whom I should name.

I wanted some one in the treasurer's office that I knew would work in harmony with the comptroller's department, and while the functions of the two offices are entirely distinct, one being a check as against the other, and they should be absolutely separate and distinct, one to check upon the other, yet I wanted there should be no antagonism; and there had been in the past, according to the evidences I had found in going over the records of the past, I found where there had been antagonisms which, to my mind, had delayed the work of the organization. Therefore, I thought of Mr. Bolling for the position.

I went to Mr. Meehan and I told him that I understood that he had had a talk with Mr. Bolling in regard to this matter, and I wanted to know from Mr. Meehan whether he had investigated and whether there was anything at all in the rumor, telling him frankly at the same time that Mr. Thompson had told me that it had been thoroughly investigated and that there was nothing in it at all.

Mr. Meehan assured me that there was a story floating around. I didn't think at that time Mr. Meehan had the full facts, or knew all about it, but I asked him if he would not, for my protection, look into the matter.

Mr. Meehan did look into it, at least, so I was assured, and told me that, as far as his investigation had gone, everything was apparently all right, that there was no—nothing that would implicate Mr. Bolling in any way, shape, or form with a commission or a fee or a gift or anything of that kind.

The CHAIRMAN. Told you that everything was apparently all right?

Mr. TWEEDALE. Yes, sir; that his investigation led him to believe that there was nothing at all that would lead anyone to believe that there was anything else; that he had investigated—I understood he had investigated it thoroughly; of course, I don't know just what processes he took in order to determine that, but he was the chief at that time in the Washington office in charge of the investigating bureau for Washington.

The CHAIRMAN. How long after you asked him to investigate it did he assure you that everything was apparently all right, and that there was nothing in the story?

Mr. TWEEDALE. In the course of several weeks. I know I kept going to his office from day to day, talking to him about it.

The CHAIRMAN. How many weeks, Mr. Tweedale?

Mr. TWEEDALE. I should say several—a couple of weeks.

The CHAIRMAN. A couple of weeks?

Mr. TWEEDALE. Yes.

The CHAIRMAN. And then you appointed Mr. Bolling your successor?

Mr. TWEEDALE. My recommendation was that Mr. Bolling be appointed. Mr. Bolling had been, and was, assistant treasurer under the former treasurer, and was familiar with the details of the work: when I went into the office, I tried to combine the work of the construction division, on the one side, and the operation division on the other hand, under one head, rather than have two assistants. I tried to make Mr. Bolling my deputy in the position, so that Mr. Bolling would be acquainted with everything that came up, so far as the treasurer's office was concerned; and so that in my absence the work of the treasurer's office, if I happened to be away, the work of the treasurer's office would run along without any interruption.

The CHAIRMAN. Now, did you hear the story afterwards, after Mr. Meehan had reported to you, and after you had appointed Mr. Bolling?

Mr. TWEEDALE. Mr. Fisher and I talked it over, and just when I can't recall; on several occasions. I remember saying to Mr. Fisher that I had looked into it. My judgment of Mr. Bolling for the period that we worked together was that he was eminently a straightforward, honest man.

I remember as an incident that brought it to my attention was Mr. Bolling coming to me one day and saying that he had several envelopes in his office which had been given to him by the former comptroller and he wanted me to look at them. I looked at them and I found that there were notes, negotiable notes, in those envelopes amounting to millions of dollars. And I might say that I was rather astounded by the method by which the treasurer's office was being conducted, that apparently there could be millions of dollars worth of securities in envelopes which were not upon the records of the treasurer's office in due form, and that immediately led to my adoption in the treasurer's office of a security department, into which I finally drove all of the securities of the organization, and we put a man in charge of that, made a complete record of all of the securities of the Fleet Corporation.

There were moneys in Mr. Bolling's hands, millions of dollars worth, with which he was trusted, which he accounted for properly in every particular. That was just one incident of a number of instances that came to my attention from day to day, showing that without records which I have always thought were necessary, monies were being handled and dependent upon the honesty of the man.

The CHAIRMAN. By whom were these notes given?

Mr. TWEEDALE. These particular notes were given by—it was Liberty bonds; excuse me, it was Liberty bonds.

The CHAIRMAN. Who were they given by, ship contractors, ship owners?

Mr. TWEEDALE. They were put up as security, I think; they were there in escrow, to take care of some advance that had been made.

The CHAIRMAN. Well, it would have been pretty hard work to dispose of any of them without it coming out eventually, wouldn't it, anyhow?

Mr. TWEEDALE. They were Liberty bonds that were not registered at all.

The CHAIRMAN. I know; but the people who put them up had a record of them.

Mr. TWEEDALE. Yes; but I afterwards believe it developed, as I recall, that those securities, while they were deposited there, the purpose for which they were deposited was settled, and the securities belonged to the corporation.

The CHAIRMAN. Belonged to the Fleet Corporation?

Mr. TWEEDALE. Belonged to the Fleet Corporation.

The CHAIRMAN. Well, now, did you talk it over with anybody else besides Mr. Fisher?

Mr. TWEEDALE. No; I don't believe I did. I don't recall that I did.

The CHAIRMAN. Did you talk it over with the chairman of the board?

Mr. TWEEDALE. No; I did not. No, sir; I did not.

The CHAIRMAN. Did you ever talk it over with any member of the board?

Mr. TWEEDALE. No.

The CHAIRMAN. Were you ever asked about it by any member of the board?

Mr. TWEEDALE. I never was.

The CHAIRMAN. Or by anybody else?

Mr. TWEEDALE. Not until very recently; I think Mr. Gillen spoke to me about it.

The CHAIRMAN. How long ago?

Mr. TWEEDALE. Oh, I don't know; while Mr. Gillen was a director of the Fleet Corporation—before he left. The story had come to him in some way. Whether Mr. Bolling spoke to him I don't know; but he came to me and asked me about it, and I told him that I had investigated this far—that is, I had gone to see Thompson and had gone to see Meehan before we had done anything.

And I will say this, that at the time I suggested to Bolling that he become treasurer, and Mr. Bolling said, "Well, I don't know about that; very likely they will rake up that story the minute I get a position of prominence in the Fleet Corporation; somebody will come

along and bring up this matter about which these anonymous letters have been sent in."

The CHAIRMAN. Did you ever see this? Have you ever seen a photostat copy of the statement of Sands, in affidavit form, which was not signed [handing photostat to Mr. Tweedale]?

Mr. TWEEDALE. No, sir.

The CHAIRMAN. Never seen it?

Mr. TWEEDALE. Never have seen it.

The CHAIRMAN. Did you ever hear that there was one in the files of the Fleet Corporation?

Mr. TWEEDALE. No, sir; not until recently.

The CHAIRMAN. Did you ever have occasion at any time to look into the matter of these notes given by Wallace Downey to Mr. Sands?

Mr. TWEEDALE. No, sir.

The CHAIRMAN. Do you know the situation with reference to the Fleet Corporation and the Providence Engineering Co. or the Downey Shipbuilding Corporation?

Mr. TWEEDALE. Yes, sir; I do.

The CHAIRMAN. Are they matters that are settled?

Mr. TWEEDALE. My impression is that they are; but I do not know definitely without looking up the records.

The CHAIRMAN. Did you ever have to look in to see how much money was advanced to either of those concerns?

Mr. TWEEDALE. I have not had personally to do that.

The CHAIRMAN. Do you know whether or not the credit department had to do something about the credit of this corporation?

Mr. TWEEDALE. That information I have recently got. The record shows that—as I looked over the file the other day—the record shows that this Providence Engineering Co. was the low bidder for 10 boats, and when they came to execute the contract; that is, the low bid had been accepted and sent to the contract department, and when the question of making or entering into the contract came around to the credit department, which department has to pass upon it first before a contract was executed, it was found from certain investigations that the credit was not sufficiently strong for the time being for entering into that contract, so the entering into it was held up. The Fleet Corporation made an investigation, audited their accounts, and found that their condition; that is, that their situation was not strong enough; that we should not enter into a contract under those conditions. The credit manager so notified the engineering company and stated that unless additional security was provided that the Fleet Corporation would not be willing to enter into a contract.

The CHAIRMAN. What was the sum of this contract—what was the total amount involved?

Mr. TWEEDALE. The records are here; I do not carry it in my head. The records are here and they will show. Mr. New, my assistant comptroller, had definite charge of this work, and the transactions between Mr. Cranor and himself were entered into between Mr. Cranor and himself, Mr. Cranor coming to him and stating that he had arranged for the credits. And in that connection I would like to say that within the last two days Mr. Cranor has been to the

Shipping Board office. I met him in Mr. Bolling's office on the 27th, and he made this statement.

Mr. KELLEY. Just how much was that contract?

Mr. TWEEDALE. Ten tugs, at \$285,000 each. Taking up the question of the payment of Downey of \$40,000 to Mr. Sands, vice president of the Commercial National Bank, Washington, D. C., in order to obtain a credit for the Providence Engineering Corporation, he (Mr. Cranor) stated that he was the one who presented the matter of obtaining the credit to Mr. Sands, whom he had known personally in the city of Richmond, where Mr. Sands had previously been connected with a banking institution.

He stated that the Providence Engineering Corporation was the low bidder on 10 tugboats on which they had submitted a bid to the Emergency Fleet Corporation; that as the representative of Mr. Downey he had come down to Washington when he had been notified by the president of the Providence Engineering Corporation that there was danger that the contract would not be awarded to them due to their financial condition, and he had, therefore, gone to Mr. Sands, and he had engaged heretofore, in like matters, as I understood him to say, in other matters in underwriting propositions of this kind, in order to see whether he might obtain a sufficient credit, which would be satisfactory to the Fleet Corporation, thereby enabling them to secure the contract.

Mr. Cranor stated that after talking with Mr. Sands, Mr. Sands had agreed to underwrite this project for a commission of \$25,000, it being his intention; that is, Mr. Sands's intention, of placing a portion of the credit in a number of country banks, which was the method he heretofore used in underwriting projects of this kind.

And subsequently when the time came for closing the transaction, Mr. Sands jumped the commission from \$25,000 to \$40,000, and he agreed to the same with the understanding that Mr. Downey would make the arrangement; that is, he would either pay the money or give him sufficient security or notes, that would take care of his agreement.

Thereupon he proceeded to the office of the credit manager in the finance division of the corporation, Mr. New, and saw Mr. New, the assistant comptroller, who had charge of these credits, and Mr. New then informed him that unless a credit was established, the deal could not be made.

The CHAIRMAN. Informed Mr. Cranor?

Mr. TWEEDALE. Yes, Mr. Cranor. Mr. Cranor informed Mr. New that he had just arranged the matter with Mr. Sands, vice president of the Commercial National Bank, and if he would call Mr. Sands up Mr. Sands would give him the assurance that the credit referred to had been established. Mr. New did call Mr. Sands, and Mr. Sands assured him that the credit had been established and arranged to send a messenger boy with a letter, covering the statement in writing. When the letter reached Mr. New, shortly thereafter, it was found that the letter was not satisfactory, in that it did not appear to be an undertaking of the bank itself, as it was signed by Mr. Sands in his personal capacity. This letter was returned to Mr. Sands with a draft of a letter which would be satisfactory to the comptroller's office. This letter was at once returned by Mr. Sands, signed by him as vice president of the Commercial National

Bank, which letter is dated March 15, 1918, and is now on file in the comptroller's department.

Mr. Cranor said that he had never received any consideration at all from Mr. Sands in connection with this transaction, and that while he had met Mr. Bolling on one or two occasions, he knew that Mr. Bolling was not interested in any way in the transaction, for the reason that Mr. Bolling was not in a position to influence the placing of this credit in any way, shape, form, or manner.

Mr. Cranor very clearly showed by his statement to me that the moneys paid were the usual moneys that are paid to financial institutions in order to obtain a credit, and that he was the man that made all the arrangements as to the amount that would be paid for the consideration for the credit of \$125,000; that he did not know what final arrangements were made between Downey and Sands, because all his work in connection with this matter was to see that a credit was established so that the contract would be executed, which work he performed.

I asked Mr. Cranor who the credit man was that he interviewed, and he said that it was Mr. New. I then called Mr. New—and Mr. New's office was down at Sixth and B—and I called Mr. New on the phone and told him to come to the F Street office, and Mr. New verified the incident that had occurred between Mr. Cranor and himself with respect to the establishment of the credit.

The CHAIRMAN. When did you do that?

Mr. TWEEDALE. I did that on November 27.

The CHAIRMAN. This year?

Mr. TWEEDALE. Yes, sir; this month.

The CHAIRMAN. As a matter of fact, the contract was signed before the letter of credit was received, wasn't it?

Mr. TWEEDALE. It appears to be dated that way—that is, one day before—but as a matter of fact, Mr. New stated to me that he called up the contract department and told them on the day that this matter was settled—the date of the letter—that they could then execute the contract, and the contract had not been issued until Mr. New notified the contract department.

The CHAIRMAN. Well, it had been signed, hadn't it?

Mr. TWEEDALE. It may have been signed, or it may have been dated in advance; I don't know which.

The CHAIRMAN. Dated in advance?

Mr. TWEEDALE. Dated behind—back one day. In other words, the contract may have been written up and dated, expecting to obtain the credits, and when the credits came through they executed it; that has been done in a number of cases.

The CHAIRMAN. Is that the way they have been signing contracts down there?

Mr. TWEEDALE. I would not like to say that that is the procedure.

The CHAIRMAN. You say they done that in a number of cases?

Mr. TWEEDALE. I have seen cases where the dates do not bear the exact date of the execution.

The CHAIRMAN. Well, the latter was dated March 15, 1918.

Mr. TWEEDALE. March 15.

The CHAIRMAN. Have you got the original of that letter here? We had a photostat copy of it.

Mr. TWEEDALE. Mr. New has it.

The CHAIRMAN. Mr. New has it?

Mr. TWEEDALE. Yes.

The CHAIRMAN. Is he one of your assistants?

Mr. TWEEDALE. Mr. New is the assistant comptroller; yes, sir.

The CHAIRMAN. Well, did you see the letter?

Mr. TWEEDALE. The original letter?

The CHAIRMAN. Yes.

Mr. TWEEDALE. Yes, sir; I did.

The CHAIRMAN. On the 27th of November?

Mr. TWEEDALE. On the 27th of November? What letter do you refer to on the 27th of November?

The CHAIRMAN. I say, you said you saw the original of this letter on November 27.

Mr. TWEEDALE. Oh, yes, sir; yes, sir; in my office, the day before yesterday.

The CHAIRMAN. Have you got a photostat copy of that letter?

Mr. TWEEDALE. I have; yes, sir.

The CHAIRMAN. Is that it?

Mr. TWEEDALE. That is it [producing copy].

The CHAIRMAN [reading]:

THE COMMERCIAL NATIONAL BANK,
Washington, D. C., March 15, 1918.

CREDIT MANAGER, EMERGENCY FLEET CORPORATION,
Washington, D. C.:

This bank has entered into an agreement with the Providence Engineering Corporation, Providence, R. I., by which the bank agrees to furnish the Providence Engineering Corporation a line of credit up to \$125,000 to be used as working capital in connection with their pending contract covering the construction of 10 tug boats for the Emergency Fleet Corporation.

It is understood that this line of credit is to be available to the Providence Engineering Corporation during the entire life of the pending contract for tug construction referred to above.

Yours, truly,

T. K. SANDS, *Vice President.*

Stamped "Financial file."

You don't know anything about this transaction at the time?

Mr. TWEEDALE. No, sir.

The CHAIRMAN. When was it first called to your attention afterwards?

Mr. TWEEDALE. I have not seen that letter before the 27th of November.

The CHAIRMAN. The suggestion has been made that I read the date of this letter as March 15, 1919. If so, I was in error as the letter is dated March 15, 1918, Mr. Tweedale.

Mr. TWEEDALE. Yes, sir; 1918.

The CHAIRMAN. It should have been 1918?

Mr. TWEEDALE. Yes, sir.

The CHAIRMAN. Now, Mr. Tweedale, do you know anything about the other credit that had been established, or whether this was to come up as part of the credit or whether this was the total credit that the corporation required for this \$2,850,000 contract?

Mr. TWEEDALE. This credit was deemed sufficient upon which to execute this contract.

The CHAIRMAN. This credit of \$125,000?

Mr. TWEEDALE. This credit of \$125,000.

The CHAIRMAN. When Mr. Cranor came to see you the other day and talked with you about this, did he say anything about the arrangement with Mr. Sands to secure a contract?

Mr. TWEEDALE. He did not. He said that he went to Mr. Sands the same as he would go to any banker to establish a credit.

The CHAIRMAN. Now, did he say anything about asking Mr. Sands to get the contract for the Providence Engineering Co.?

Mr. TWEEDALE. He did not; he did not.

The CHAIRMAN. Did he say anything about having made any arrangement with Mr. Sands relative to dividing these commissions of \$25,000 with him, Cranor?

Mr. TWEEDALE. He said positively that there was no such arrangement.

The CHAIRMAN. You talked to him about that?

Mr. TWEEDALE. I did; and he said no, that this money was, he understood—the notes or whatever they were that were paid—were put up, was an arrangement between Mr. Downey and Mr. Sands, and that it was the usual arrangement. He said Mr. Downey gave him the dickens for agreeing to pay a commission of \$40,000, because Mr. Downey thought it was too high; but he said that that was not an unusual commission for a credit of that amount.

The CHAIRMAN. Who said that?

Mr. TWEEDALE. Mr. Cranor told Mr. Downey that that was not unusual.

The CHAIRMAN. What did you think about it?

Mr. TWEEDALE. Well, I didn't know; I have heard that Mr. Downey has paid very much higher commissions for other credits.

The CHAIRMAN. To Sands?

Mr. TWEEDALE. No, no; in New York here.

The CHAIRMAN. In New York?

Mr. TWEEDALE. Yes.

The CHAIRMAN. Did Mr. Cranor say anything about Mr. Sisler knowing about this?

Mr. TWEEDALE. No; he said, as far as I recall, that Mr. Sisler didn't know anything about it; that the arrangement was made between himself and Mr. Sands, because of his former connection. That is the reason he went to Mr. Sands, because of his former connection with Mr. Sands in Richmond. I should judge, from Mr. Cranor's speech, that he is a southerner; he said he lived in Richmond and he had known Mr. Sands there, and had financial transactions with him in banking business in the city of Richmond.

The CHAIRMAN. Was Mr. Sisler secretary to the board when you were there?

Mr. TWEEDALE. No, sir; I didn't know the gentleman.

The CHAIRMAN. Did you ask Mr. Cranor whether there were any arrangements made whereby Mr. Bolling was to have had part of this commission?

Mr. TWEEDALE. About the same question that I asked in regard to the whole subject, whether there was anything in this matter at all in regard to the payment of a division—the division of the commission—which Mr. Cranor says was nothing unusual; this was purely a commission paid Sands to secure this credit, and that is all that it was.

The CHAIRMAN. Well, was it your understanding that Mr. Sands was to assure this credit—put the bank behind this company—and that he personally was to receive this fee, or that that fee was to go to the bank? What did Mr. Cranor say to that?

Mr. TWEEDALE. Mr. Cranor did not seem to be at all sure about that particular matter. I think, from the way Mr. Cranor explained the matter, that Mr. Cranor's idea was that he was dealing with Mr. Sands as a member of the—as the vice president and officer of the Commercial National Bank, and that he was paying Sands this money—I don't know whether he had any idea of seeing to this application or where the money was going to; he was very clear on one point, because I questioned him on it and over and over again, and that was that the \$40,000 was a commission only for securing the credit. There is no doubt in my mind that the Fleet Corporation did accept that letter as a letter of credit, and I feel very sure that if anything had happened the fleet could have gone back on that bank for that amount of credit in case any trouble had arisen.

The CHAIRMAN. Well, the Fleet Corporation had made advances to the Downey Shipbuilding Corporation through Mr. Wallace Downey, hadn't they, for that contract?

Mr. TWEEDALE. That is, for Downey's contract or for this contract?

The CHAIRMAN. For Downey's contract.

Mr. TWEEDALE. Oh, yes; they had made advances from time to time.

The CHAIRMAN. Now, is there anything in your office, in the comptroller's office, that you know of, which shows this item of \$40,000, or any part of it, from the books of the Providence Engineering Co.?

Mr. TWEEDALE. I don't know that there is, because I have never had it investigated. I don't know whether a final audit has been made on that account or not.

The CHAIRMAN. Well, now, was not it a matter, when it came to your attention, Mr. Tweedale, that you would naturally want to have investigated to find out what the books of the Providence Engineering Co. showed about this matter, and would not the Downey Shipbuilding Co. show up anything about it? What investigation was made prior to the awarding of the contract, and what bearing it had upon payments made under the contract, and what relation it had, if any, to the final settlement?

Mr. TWEEDALE. Well, this particular matter has only very recently come to my attention, very recently; that is, the matter of looking up these files; it has only been within the past week that I have had any chance at all to go into this.

The CHAIRMAN. You said that there was a letter sent, signed personally by Mr. Sands, which was unsatisfactory to the credit department?

Mr. TWEEDALE. So I am informed by Mr. New.

The CHAIRMAN. Didn't you know that, as a matter of fact, the contract department acted upon that letter—the 14th of March—and signed the contract, and then later insisted—Mr. New insisted that a letter as vice president of the bank should be forthcoming?

Mr. TWEEDALE. I would like Mr. New to testify to that specifically, because I don't know.

The CHAIRMAN. I am asking you if you know.

Mr. TWEEDALE. I don't know it.

The CHAIRMAN. Do you know whether or not somebody in your department looked up the condition of the Providence Engineering Co. and its capacity to carry out the terms of the contract, and reported favorably even before the credit was established with the Commercial National Bank—whether you know?

Mr. TWEEDALE. No; I don't know that. The only thing I do know is that Mr. New positively refused to give credit—to certify credit to the contract department until this letter had been received, according to Mr. New's own statement.

The CHAIRMAN. When did you first hear that Mr. Sisler was alleged to have been involved in this transaction or the story which also involved Mr. Bolling?

Mr. TWEEDALE. I expect that when Mr. Bolling told me about this matter, he probably told me about Mr. Sisler, but I have never known Sisler and the name made no impression on my mind whatever.

The CHAIRMAN. You knew that he had been secretary?

Mr. TWEEDALE. I knew he had been secretary.

The CHAIRMAN. You knew when Mr. Bolling first came to you to tell you about this?

Mr. TWEEDALE. He told me that he had been secretary.

The CHAIRMAN. And that Mr. Sisler was alleged to have been involved in that?

Mr. TWEEDALE. Yes, sir.

The CHAIRMAN. Did he tell you how he found that out?

Mr. TWEEDALE. No; I can not tell you that—how he did.

The CHAIRMAN. There was nothing in the anonymous letter to that effect, was there?

Mr. TWEEDALE. I don't remember. I don't remember that—I can not recall. I know that when Meehan and I talked about it that Meehan did tell me, but whether I knew it before that I can not say; I do not know.

The CHAIRMAN. Then you don't know whether Mr. Bolling did actually mention Sisler or not?

Mr. TWEEDALE. No; I do not.

The CHAIRMAN. I don't understand whether you have met Mr. Cranor before the day before yesterday?

Mr. TWEEDALE. No.

The CHAIRMAN. Had you met him before that time?

Mr. TWEEDALE. I had never met him before; he was a total stranger to me.

The CHAIRMAN. Had you met Mr. Downey before?

Mr. TWEEDALE. I met Mr. Downey two or three or four months ago, when he was endeavoring to get a further advance under his contract. There was a conference going on at the time and I walked into the room where there was this conference going on there, and I think I met him there. I have never had any conversation at all with Mr. Downey; I didn't know him.

The CHAIRMAN. At the time this conference was going on, was this an advance for credit in consideration of the shipping contract?

Mr. TWEEDALE. No, no, sir. It was a further advance under the original contract of Downey for the Downey Shipbuilding Co.

The CHAIRMAN. Do I understand you to say, Mr. Tweedale, that it is your information that other contractors who build ships for

the Shipping Board establish their credit through methods such as Mr. Cranor tells you was used in this case? Now, from your own knowledge, not from what others told you?

Mr. TWEEDALE. No; I can not say that.

The CHAIRMAN. You can not say that?

Mr. TWEEDALE. No; I can not say that.

The CHAIRMAN. Do you, as comptroller, have to be satisfied or pass upon anything, any document, or inspect any representations made by these contractors before their credit is established?

Mr. TWEEDALE. Yes, sir.

The CHAIRMAN. Now, do you recall ever having passed upon any case where credit was established in this manner with the Shipping Board?

Mr. TWEEDALE. No, sir; never. Not since I have been where I have had anything to do with it. I do not remember.

The CHAIRMAN. You stated that you understood Mr. Downey had established credit in New York in a similar manner. Was that for this same contract?

Mr. TWEEDALE. I think that it was an unfortunate use of the words. I do not know that he established credit that way; I understood that Mr. Downey had had to pay excessively for moneys which he required in his use; that is, for his use in his shipbuilding work. That is to say, he had to pay a commission very much larger in proportion than this particular sum is to the credit that was established in that case.

The CHAIRMAN. Then, you look upon this as purely—as a matter of establishing credit?

Mr. TWEEDALE. That is all, that is all.

The CHAIRMAN. Any questions, Mr. Kelley?

Mr. KELLEY. I think the questions I have in mind had better be asked of Mr. New, but there are one or two: Have you looked into these companies' records, the Downey Shipbuilding Co. and the Providence Engineering Co.?

Mr. TWEEDALE. The Downey Shipbuilding Co. has come to my attention on several occasions. The question came up in the Downey Shipbuilding Co., I remember, in regard to the measurement of the dead-weight tonnage of certain ships and there had been a great deal of contention as to what the proper dead-weight tonnage of the ships were. One ship was to be measured as a result of that; the dead-weight tonnage of all the ships should be ascertained.

I found that that question was being booted about to first one and then to the other, so, without saying very much about it, I found there was a ship in New York here, one of his ships, and I made arrangements whereby that ship was measured and the dead-weight tonnage absolutely obtained; that is, the Navy Department, through a commission, was one member of it, and the American Survey Bureau had another, and our own representative had another, and as a result of that, the dead-weight tonnage was much reduced, to the great saving to the corporation.

Mr. KELLEY. And this Downey controversy, as it has been brought in through these charges against Mr. Bolling and others, has come to your attention so recently that you haven't had time to inquire into the financial situation of either of these companies at the time this second contract was made?

Mr. TWEEDALE. I have not.

Mr. KELLEY. You don't know that this \$100,000 that is spoken of in this letter——

Mr. TWEEDALE. \$125,000.

Mr. KELLEY. \$125,000 was in fact made available for these people at all, but put into the savings account down there against which they could not check, at this Commercial National Bank?

Mr. TWEEDALE. I don't know what financial arrangements had been made—absolutely nothing.

Mr. KELLEY. You have not inquired into it to see whether this is true or not?

Mr. TWEEDALE. No, sir; and I would accept that for face value; I think it would bind the bank for a credit of \$125,000.

Mr. KELLEY. It would not bind the bank unless the board of directors have agreed to it or the proper authorities have given Mr. Sands, as vice president, authority to bind the bank; it would not bind the bank, would it?

Mr. TWEEDALE. No. Of course, we naturally suppose that when the vice president and cashier of a bank signs a document of that kind that he is not carrying out something that he is not authorized to do.

Mr. KELLEY. I know, Mr. Tweedale; but if you are going to insist that a firm shall have credit should not you insist that the evidence of that credit should be in some legal and proper form to bind the bank or whoever is going to furnish the credit? In other words, Mr. Tweedale, would the Fleet Corporation accept a mere letter from a bank as evidence that the bank had acted in harmony with the letter? Would you not ask for a copy of their resolution or anything of that kind, the resolution of the board of directors; wouldn't you have done that?

Mr. TWEEDALE. Well, I do not know if this is the fact, that this is being done, but I say this is the only case of its kind that I know of. To my estimation a document of that kind you would naturally believe would bind the bank for the sum specified.

In other words, you would not, naturally, if you had gone to a bank here in New York, and the bank notified some one engaged in business that they have established a credit of so much money for their benefit during the life of a certain contract, you would not naturally go back and examine the record to find out whether the man executing that contract, if he had held the position of vice president and cashier, was authorized to make that statement if it was a first-class bank and a bank that had a good capital behind it and a recognized financial institution.

Mr. KELLEY. You would not ask for a copy of the resolution of the board of directors?

Mr. TWEEDALE. Not ordinarily; I don't think so; not ordinarily.

Mr. KELLEY. Would the fact that this credit was being supplied by a Washington bank which had no business dealings with this company in Providence, or away up in Connecticut, put you on your guard at all?

Mr. TWEEDALE. Well, there is another angle to that: Here is a bank that we have been doing business with.

Mr. KELLEY. The Shipping Board?

Mr. TWEEDALE. Yes.

Mr. KELLEY. You had \$4,000,000 or \$5,000,000 on deposit there?

Mr. TWEEDALE. Yes; we had confidence in that bank or we would not have had the \$4,000,000 or \$5,000,000 in there. And, naturally, supposed that the vice president and cashier was a proper man to issue a certificate of that kind.

Mr. KELLEY. Would not a credit of \$125,000 be much of a credit on a contract for \$2,850,000?

Mr. TWEEDALE. Well, that is another question. I don't know.

Mr. KELLEY. Oh, yes, you do, Mr. Tweedale,

Mr. TWEEDALE. I don't know what the surrounding circumstances were.

Mr. KELLEY. That would be about 5 per cent.

Mr. TWEEDALE. That is all right; I am not taking it as to the gross amount of that contract, what the other \$125,000 credit is established for, is to make sure, as the matter of the progress of the work proceeds, from time to time, that the company will be able to meet their ordinary payments for material and labor, and that the corporation shall have the assurance that they have sufficient funds to pay this labor and materials bill. You must not consider that this has so very much of a relation to the whole contract, that is not what we are looking after. What we want to know, and wanted to be sure of, was that they had sufficient credit to pay up from time to time, as they became due, for their materials and for their labor, from one period to the next period when they would receive monies from the corporation, so that there would be no question about the work progressing.

Mr. KELLEY. Now, Mr. Tweedale, the very minute the contract was signed, you handed them over \$285,000 on the contract, didn't you?

Mr. TWEEDALE. I don't know that; I have not examined that contract far enough to know.

Mr. KELLEY. Well, the contract provides that they shall be paid 10 per cent within 30 days.

Mr. TWEEDALE. Upon the signing of the contract?

Mr. KELLEY. In 30 days after the signing of the contract, so that there was \$285,000 to be turned over to them by the Shipping Board immediately after the signing, that they could dispose of anywhere they liked, and yet you were not—I say you were not—I mean the Shipping Board were not willing to trust them for another 5 per cent and caused this contractor to go out and spend \$40,000 to get that little credit down there of \$125,000. Do you think the Shipping Board ought to force business men into that kind of a situation, where they are compelled to make that tremendous expenditure, pay that commission for \$125,000 that you could not use, especially?

Mr. TWEEDALE. Well, of course, as I have said, I am not familiar with the terms of that contract; I have not looked into it. It was a little bit previous to my term of office, and I am frank to say that if the question came up to me to-day to pass on, why, I do not believe that I would pass on it just in that way.

Mr. KELLEY. You don't know that the New York office here went and made a thorough investigation of these two companies; that the one of them was to furnish the engines and the other the hulls, under the contract, and reported that everything was in first-class condition, and that they were able to do the work, and had abun-

dance of credit, and was all right; that that was the New York end of it here?

Mr. TWEEDALE. No; I didn't know it.

Mr. KELLEY. Whose business is it to take up a question like this and find out what is the matter down there?

Mr. TWEEDALE. You mean now?

Mr. KELLEY. Yes.

Mr. TWEEDALE. My business.

Mr. KELLEY. I dare say, now that this has come to your attention, you will find out what is the trouble about this contract?

Mr. TWEEDALE. I will certainly look into it and construe it very closely and see what facts and figures have been produced and what the results are, and see if the account is open and what there is in connection with that contract.

Mr. KELLEY. Do you know whether one of those notes was charged to contract expense, and made by the Shipping Board?

Mr. TWEEDALE. No; I do not.

Mr. KELLEY. Doesn't it strike you that there has been a singular—how long has that been called to your attention, a week?

Mr. TWEEDALE. Just about a week.

Mr. KELLEY. And Mr. Fisher did not know about these things at the time you talked with him, did he?

Mr. TWEEDALE. Well, Mr. Fisher never told me about the notes.

Mr. KELLEY. I don't think he knew about them.

Mr. TWEEDALE. I think, in a general way, he said he had some information that somebody was signing a whole lot of notes, but I never did get the complete statement of it—the facts—and I don't think Mr. Fisher knew all about it at the time.

Mr. KELLEY. Here is a report made on the 30th of November, 1918, that I call your attention to, Mr. Tweedale, and I naturally think that this has been in the files in the Shipping Board a long time. I just ask you to glance at this item, "Payment for expenses" and see whether or not that indicates that one of those notes was paid.

Mr. TWEEDALE. The item that you refer to is a \$10,000 item for partial payment for furnishing and guaranteeing financial credit and working capital?

Mr. KELLEY. What is the date of that?

Mr. TWEEDALE. The date of this is——

Mr. KELLEY. September, 1918?

Mr. TWEEDALE. Just September, but no year, apparently.

Mr. KELLEY. If one of those \$10,000 notes was paid in September, 1918, that might be the one?

Mr. TWEEDALE. It is very possible it might be.

Mr. KELLEY. Is it possible that the United States Government is paying notes of that kind, Mr. Tweedale?

Mr. TWEEDALE. No; so far as I know, it is not. We object to those kind of things right straight through.

Mr. KELLEY. This is two years ago. That has been paid, hasn't it? Of course, you didn't have anything to do with it.

Mr. TWEEDALE. I can not answer your question from my own knowledge because I don't know. I suspect, from the way it looks, it may have been paid.

Mr. KELLEY. This report indicates that it was paid, doesn't it?

Mr. TWEEDALE. Yes, sir. Maybe I ought not to testify so directly about something I don't know anything about.

Mr. KELLEY. Let us let that go, Mr. Tweedale.

Mr. TWEEDALE. The statement is made to me right now that this is a lump-sum contract.

Mr. KELLEY. If in the end you might have to settle with these people on some other basis, that would be a matter that would come up and have to be considered and be of importance?

Mr. TWEEDALE. If we had to settle on the cost-plus basis it would make a great deal of difference. If this is a lump-sum contract, if we paid the full amount, we would be really through with it, we do not care then what they use their money for.

Mr. KELLEY. The company might be in such a financial condition when you got through, that there would not be any recourse after having paid them?

Mr. TWEEDALE. That is true.

Mr. KELLEY. On what theory would you give them this in the first place, on a lump-sum contract?

Mr. TWEEDALE. If it had happened to be within a certain payment which was paid to them, it would be simply a payment on account of the contract, a partial payment.

Mr. KELLEY. Payment on the contract?

Mr. TWEEDALE. Partial payment on account of the contract, and making no difference where they used the money then. In other words, we pay so much money, the amount of the debt, and we get the ships, why, we are through, irrespective of where they use the money, whether they use it for dinner parties or whatever they use it for.

Mr. KELLEY. Now, did they complete these ships—you don't know?

Mr. TWEEDALE. I don't know. I could not answer that question.

Mr. KELLEY. If it is your business to find out about this transaction, these ships, this Downey contract, these four \$10,000 notes, and where the money went to, and whether or not the settlement has been complete and satisfactory, or whether the Government has suffered anything by reason of its having paid anything in that way, will you look into that, and when you come back, be prepared to go into it, when you come before us again, tell us all about it?

Mr. TWEEDALE. I positively will.

Mr. KELLEY. Will Mr. New have all the records showing the financial standing and the reports—all the reports on this Providence Engineering Co.?

Mr. TWEEDALE. He has the complete file of the Providence Engineering Co. here, and that should show all the papers that the comptrollers had in regard to that transaction.

Mr. KELLEY. It would show all the reports that were made by anyone sent out from your office in Washington?

Mr. TWEEDALE. It should; yes.

Mr. KELLEY. And also from New York?

Mr. TWEEDALE. It should do so; I have not checked them over to see if they are there; but that is what it should do.

Mr. KELLEY. I think Mr. New is the man I want to see.

Mr. TWEEDALE. I think so.

The CHAIRMAN. Mr. Tweedale, since you have been treasurer or general comptroller of the Fleet Corporation or Shipping Board, have you heard any other charges or allegations made against other officials of either the Shipping Board or the Fleet Corporation, outside of this story involving Mr. Bolling?

Mr. TWEEDALE. Your question was a very broad one. That is, as I understand your question, to be any employee? Do you mean any employee?

The CHAIRMAN. Any official, I think I said.

Mr. TWEEDALE. For instance, I had a man who was holding a position in an official capacity as deputy comptroller in the city of Norfolk, and there were charges against him, and he was dismissed on account of it.

The CHAIRMAN. What might have been his name?

Mr. TWEEDALE. Mr. Wood.

The CHAIRMAN. E. B. Wood?

Mr. TWEEDALE. E. B. Wood; yes, sir.

The CHAIRMAN. Since you have been either treasurer or general comptroller of the Fleet Corporation, have you heard any stories containing charges or allegations against any of the officials of the Shipping Board or the Fleet Corporation, whose offices are in Washington?

Mr. TWEEDALE. No, sir; I think not; none at all.

The CHAIRMAN. I understand that what you did in this matter was to satisfy yourself through hearing Mr. Bolling's version, talking with a representative of the Department of Justice who said he had made a thorough investigation of the matter, talking with a representative of the Bureau of Investigation of the Shipping Board, who stated he had investigated the matter, who stated that Mr. Bolling was not involved, that the charges and allegations were false and without foundation, and that so far as you know, you knew Mr. Bolling was an eminently proper person to be designated as your successor as treasurer?

Mr. TWEEDALE. That is absolutely correct, and from my association with Mr. Bolling, from the time I have been in the Fleet Corporation, there is no question at all in my mind that he is a man worthy of the highest respect, and the fullest confidence of every one associated with him; and I would feel perfectly confident to trust any financial matter to his care, because I know that it would be taken care of just as well as if I would have taken care of it myself.

The CHAIRMAN. And if, upon the investigation, there were any doubts in your mind, the fact that Mr. Bolling was related to the President my marriage, would not have resolved that doubt in his favor?

Mr. TWEEDALE. Mr. Chairman, I have been connected with the Government in various capacities for the past 27 years, and it has been my policy to pay no attention to a man's politics or his religion or his associations. The only thing that I have tried to do and insisted upon being done, is that every man shall do his work honestly and well; and it would have made no difference what pressure or where it was from or who it was that came to see me about a man, if I believed he was wrong, I would use my utmost endeavors to get him out of the job.

The CHAIRMAN. And the fact that Mr. Bolling was related by marriage to the President did not influence you or weigh with you in any respect in coming to your conclusion that he should be appointed as your successor as treasurer of the Fleet Corporation?

Mr. TWEEDALE. It had no connection in any way, shape, or form.

The CHAIRMAN. Now, you know from anything that Mr. Bolling has told you since he has been your successor, or of any attempts made by parties for their own selfish ends to utilize Mr. Bolling's relationship with the President, for the purpose of having him exert influence upon other officers of the Shipping Board or Fleet Corporation? Has he ever told you of anything of that sort?

Mr. TWEEDALE. No, sir; there has never been anything of that kind.

The CHAIRMAN. He has never asked you to do anything for anybody in that way, has he?

Mr. TWEEDALE. Mr. Bolling has never asked me or anyone that I know of to do anything, and, as a matter of fact, Mr. Bolling has told me that he wishes he was a private citizen, so that he would not be requested all the time to do things for other people. Everybody seems to think because he is in some way connected with the President that he has a sort of pull that will get something. As a matter of fact, Mr. Bolling is conscientious in that he tries to keep away from those things, and I have seen it day after day in the office, where people have come to him and he has come out and he has asked me to get them out of the way; he would not go back to them, would not talk to them.

The CHAIRMAN. You know of instances?

Mr. TWEEDALE. I know of instances.

The CHAIRMAN. You have lived in Washington quite a few years, haven't you, Mr. Tweedale?

Mr. TWEEDALE. Yes.

The CHAIRMAN. You were there as comptroller for the District of Columbia during the early days of the war?

Mr. TWEEDALE. I was comptroller of the District of Columbia—I was in the comptroller's office of the District of Columbia back 24 years ago.

The CHAIRMAN. From general observation, perhaps you concluded that Washington was pretty well filled up with people endeavoring to secure all sorts of contracts with the United States Government, not alone the Shipping Board, but other branches, and they were not backward in attempting to make use of all sorts of claims.

Mr. TWEEDALE. That is probably true. The fact is that one of our hotels there during the war was filled with people that were endeavoring to secure contracts, and who were using all kinds of influence and inducements to such a degree and extent that the attention of our police department of the District of Columbia was called to it, and a thorough investigation was made by the police department as to whether certain people should be allowed to remain in certain hotels.

The CHAIRMAN. Sometimes the influence of a man's position or his relationship is used without his knowledge, isn't it?

Mr. TWEEDALE. Oh, that is true, often.

The CHAIRMAN. Did you ever talk with Mr. Sands about this transaction?

Mr. TWEEDALE. No; I did not. I knew Mr. Sands in years gone by. I believe I had an account in the Commercial National Bank maybe 10 years ago, and I knew him as the cashier of that bank, a very prominent financier, and I had a very great respect for him at that time, but I have not met Mr. Sands since I have been with the Shipping Board and a number of years before I came with the board.

The CHAIRMAN. You know of any instances where anybody has received commissions for securing a contract with the Shipping Board?

Mr. TWEEDALE. No, sir; I assure you that if I did, the Department of Justice would know it the next day.

Mr. KELLEY. In 1918, at the time this contract was let, the situation was not quite so bad, was it, as to pressure at Washington; that is, in March, 1918?

Mr. TWEEDALE. In March; no.

Mr. KELLEY. The department of shipping, or the board, that is, the Shipping Board and the Fleet Corporation, had been gotten pretty well organized then, and there was not much occasion?

Mr. TWEEDALE. Well, they were going at rather high pressure at that time in Washington, in 1918.

Mr. KELLEY. Still, all the rules of practice were pretty well worked out as to the letting of contracts?

Mr. TWEEDALE. Yes; I should say the policies had been established and the methods established; I should say that that was so.

Mr. KELLEY. Taking it all in all, as the information has come to you now, Mr. Tweedale, don't you think that this is rather of an unusual phase, or rather an unusual instance, the whole matter with reference to the notes, and this way of getting credit, and the way of accepting the credit and notification of the credit?

Mr. TWEEDALE. I hate to put myself back into the position at that time, without knowing what the surrounding circumstances were.

Mr. KELLEY. I say, take it as you see it to-day.

Mr. TWEEDALE. It would not go through to-day. Not if I knew of it. But I think Mr. New may be able to throw some light on that particular situation, as of that time.

Mr. KELLEY. No doubt he can.

Mr. TWEEDALE. Because he was there, and has been right straight along.

Mr. KELLEY. You will have Mr. Tweedale here again on other matters, won't you, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. TWEEDALE. I would like to start out and tell you a story right now.

The CHAIRMAN. The committee will take a recess until 7.45 p. m. (Thereupon at 6 o'clock p. m. a recess was taken until 7.45 p. m.)

AFTER RECESS.

The CHAIRMAN. The committee will resume. Mr. Sisler.

TESTIMONY OF MR. LESTER SISLER.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. What is your name, please?

Mr. SISLER. Lester Sisler.

The CHAIRMAN. Where do you reside, Mr. Sisler?

Mr. SISLER. 96 Neptune Avenue, New Rochelle, N. Y.

The CHAIRMAN. Were you formerly secretary of the United States Shipping Board?

Mr. SISLER. Yes, sir.

The CHAIRMAN. How long were you secretary of that organization?

Mr. SISLER. From July 1, 1917, until the latter part of March, 1919.

The CHAIRMAN. I hand you a letter bearing your signature, and ask if that is a letter you sent to me as chairman of the committee?

Mr. SISLER. It is, sir.

The CHAIRMAN. The letter reads as follows:

NEW YORK, November 22, 1920.

HON. JOSEPH WALSH,

Chairman House Committee

Investigating United States Shipping Board,

Federal Post Office, Park Place, New York City.

DEAR SIR: In view of the allegations made by Tucker K. Sands to your committee investigating Shipping Board affairs, accusing me of collusion in securing certain contracts for the Downey Shipbuilding Corporation, I respectfully request that the earliest possible opportunity be given me to appear before your committee to enable me to testify in complete refutation thereof.

I may add that I was never concerned in the remotest manner directly or indirectly, in negotiating shipbuilding or any other contract with the Shipping Board, either for the Downey or any other corporation; my duties, functions, and powers as secretary of the board being limited to their official attestation and record after same had been awarded.

In view of the publicity that has been given to this testimony, I am handing to the press, a copy of this application to be heard before your committee in my vindication, and which I am confident it will promptly grant.

Yours, very truly,

LESTER SISLER.

The CHAIRMAN. When were you made secretary, Mr. Sisler?

Mr. SISLER. July 1, 1917.

The CHAIRMAN. Who appointed you?

Mr. SISLER. The board; No; I should correct that; I was acting secretary July 1, 1917, and served as acting secretary of the board until October of the same year. In the meanwhile I had been elected, during the incumbency of Mr. Hurley and Admiral Capps, as secretary of the Fleet Corporation.

The CHAIRMAN. You were secretary of the Fleet Corporation and acting secretary of the Shipping Board?

Mr. SISLER. That is correct, sir.

The CHAIRMAN. Were you sworn in as acting secretary?

Mr. SISLER. I was, with the title of assistant secretary.

The CHAIRMAN. Were you sworn in as secretary of the Fleet Corporation?

Mr. SISLER. Yes, sir.

The CHAIRMAN. How long did you stay with either?

Mr. SISLER. I stayed in both capacities up until the incumbency of Mr. Schwab.

The CHAIRMAN. When was that?

Mr. SISLER. That was about June or July, 1918.

The CHAIRMAN. June or July of 1918?

Mr. SISLER. When the Fleet Corporation moved to Philadelphia—that is, the construction department—I retained the office as secre-

tary of the board, and a new secretary was appointed for the Fleet Corporation, who had his office in Philadelphia.

The CHAIRMAN. Who was appointed secretary of the Fleet Corporation?

Mr. SISLER. Mr. Stephen Bourne.

The CHAIRMAN. And how long did you continue as assistant secretary of the Shipping Board?

Mr. SISLER. I continued as assistant secretary of the Shipping Board from the date of my appointment until October, 1917, when I was elected secretary of the board.

The CHAIRMAN. And how long did you continue as secretary?

Mr. SISLER. I continued in that capacity until my resignation, which was in the latter part of March, 1919.

The CHAIRMAN. Was your resignation asked for?

Mr. SISLER. It was not.

The CHAIRMAN. What was your business or occupation prior to going with the Shipping Board?

Mr. SISLER. Chief clerk of the Interstate Commerce Commission.

The CHAIRMAN. How long had you held that position?

Mr. SISLER. From, I think, December, 1913, until my appointment with the Shipping Board.

The CHAIRMAN. What business are you in now?

Mr. SISLER. I am in the lumber and coal business.

The CHAIRMAN. On your own account or in some firm?

Mr. SISLER. Well, I have an interest in both concerns.

The CHAIRMAN. What concerns?

Mr. SISLER. The Newfoundland Cooperage Corporation, which is organized under the laws of Newfoundland. I am vice president of that company. I am assistant secretary of the United States High Speed Steel & Tool Corporation.

The CHAIRMAN. Under the laws of what State is that organized?

Mr. SISLER. New York.

The CHAIRMAN. Its head office is here?

Mr. SISLER. 489 Fifth Avenue.

The CHAIRMAN. Did you have anything to do with the awarding of contracts while you were acting secretary of the Shipping Board or secretary of the Fleet Corporation?

Mr. SISLER. Not with their actual award; no, sir. My only function, perhaps, in the early part of the tenure of my office was to present matters to the board that might of necessity have to be brought before the board for final decision, in the event of a controversy over the contract, and that was merely perfunctory in the fact that my office prepared the dockets for presentation to the board.

The CHAIRMAN. Were you consulted with reference to the award of contracts before they were made?

Mr. SISLER. By the board?

The CHAIRMAN. Yes.

Mr. SISLER. No, sir.

The CHAIRMAN. Were you consulted by anybody with reference to the contracts being awarded before the actual award was made?

Mr. SISLER. If you mean those seeking contracts came to my office in an attempt to see me, yes; dozens of people; in fact, they sought each and every member of the board, and every official of the Fleet

Corporation, and if they could not get satisfaction they usually found their way to my office.

The CHAIRMAN. What was it they were after you for; information?

Mr. SISLER. Every conceivable matter that might arise in connection with the contract, whether it had been awarded, whether it had been attested, or whether it had been signed.

The CHAIRMAN. Just information as to the status of the matter?

Mr. SISLER. That was usually the nature of their inquiries.

The CHAIRMAN. Were you ever besought by people to use your influence to secure a contract?

Mr. SISLER. I would not say that they besought my influence, but I was consulted, I should say, practically every day while I was secretary of the Fleet Corporation, particularly, as to pending contracts and those who were seeking contracts; that usually the office was so scattered—we were in as high as 23 buildings at one time in Washington—that they usually could not find the right office. My office was a general clearing house, and they usually came there, oftentimes not seeing me, because I would be with the board, in conference.

The CHAIRMAN. But did anybody seeking contracts confer with you and ask you to help them get a contract?

Mr. SISLER. Well, I would say in substance that that would be true. If they could not get a contract and had appealed to all those in authority, they would not leave Washington unless they, as a last resort, perhaps, came down to my office and left a record there for me to present to the board as to decision by the board as to why they could get no contracts, it being my function to present to the board any and all complaints. Innumerable instances occurred where persons seeking contracts were not awarded the same, and they would usually file a petition or come to see me personally and ask me to intervene with the board in presenting their case.

The CHAIRMAN. Did they offer to pay you for those services?

Mr. SISLER. Not to my recollection, sir.

The CHAIRMAN. Did you ever receive any pay or any commission or any gift or bonus for assisting people to get contracts?

Mr. SISLER. No, sir; I have not.

The CHAIRMAN. Do you know Mr. Tucker K. Sands?

Mr. SISLER. Yes, sir.

The CHAIRMAN. How long have you known him?

Mr. SISLER. Well, I have lived in Washington up until the time I severed my relations with the Shipping Board, all my life, and I knew Mr. Sands casually as cashier of the Commercial Bank for—oh, years prior to my going with the Shipping Board. I think I had an account at his bank at the time, and I knew him only casually. I really could not say that I was well acquainted with Mr. Sands until after I had gone with the Shipping Board.

The CHAIRMAN. You say that you did not become well acquainted with him until after you had gone with the Shipping Board. Why was that?

Mr. SISLER. I had no occasion to seek an acquaintance with him, other than a casual one, up until the time I organized a sand and gravel company, under the laws of Delaware.

The CHAIRMAN. That was after you went to the Shipping Board?

Mr. SISLER. That was after I had gone to the Shipping Board.

The CHAIRMAN. Did your going to the Shipping Board have anything to do with your organizing this company?

Mr. SISLER. None whatever. It was a private endeavor solely.

The CHAIRMAN. Is that concern still in existence?

Mr. SISLER. It is.

The CHAIRMAN. Are you still interested in it?

Mr. SISLER. I have not been interested in it for approximately a year.

The CHAIRMAN. When was this firm, partnership, or corporation organized or formed?

Mr. SISLER. It was a corporation entitled "Washington Sand & Gravel Co.," organized under the laws of Delaware in the early part of 1918.

The CHAIRMAN. Where was its plant?

Mr. SISLER. Bladensburg, Md.

The CHAIRMAN. And what was it engaged in doing?

Mr. SISLER. Sand and gravel, solely.

The CHAIRMAN. You had a sand and gravel pit, or whatever you call it; a place there?

Mr. SISLER. A sand and gravel plant, from which we used electric power to pump our sand and gravel directly from the stream—a branch of the Potomac River.

The CHAIRMAN. And who were your customers?

Mr. SISLER. Merchants throughout Washington. The State of Maryland, through its roads, and various public utilities, the electric companies in Washington, contractors in Washington and Maryland; practically a local consumption in Maryland and in the District of Columbia.

The CHAIRMAN. Did the United States Government purchase any of it?

Mr. SISLER. Not to my recollection, unless it was the Washington Navy Yard may have gotten some few loads of sand-blast.

The CHAIRMAN. Who was the president of this corporation?

Mr. SISLER. Mr. C. L. Gray.

The CHAIRMAN. Were you an officer?

Mr. SISLER. I was a director.

The CHAIRMAN. How did Mr. Sands come to be connected with this company?

Mr. SISLER. When I first organized the company, or had thought of organizing it, I naturally had to take into consideration in the first instance the raising of the requisite capital, the estimates from engineers that I had employed claiming that it would take something like \$20,000 to put the plant in operation. Before taking it up, therefore, I had in mind certain banks in Washington, and consulted several of my friends in various banks, one of which was Mr. Sands.

Before going to Mr. Sands I had asked Mr. Bolling, who was then assistant treasurer of the Fleet Corporation, whether or not he would go in, and if so, through his friendship with Mr. Sands, whether or not he could also interest him in the company. That led to a series of conferences with Mr. Sands, leading to the company, or the three individuals in the company, borrowing \$5,000, Mr. Sands having previously agreed verbally with me that he would finance the company and take a quarter interest in it, and for that quarter interest was to have placed to the credit of the company \$25,000.

When I went ahead on that theory, assuming that the money would be forthcoming, and called on Mr. Sands for the money, he stated that he was pressed otherwise, and could not put the \$25,000 in it. I explained to him the embarrassing position it left me in, having incurred some \$6,000 or \$8,000 in the purchase of machinery and the erection of the plant, and he subsequently agreed to loan me, or loan the company, \$5,000.

The CHAIRMAN. Did he go into the company, too?

Mr. SISLER. No; I would not say that he went in it. I had hoped and considered him in it for a couple of months, until I finally got his decision that he could not carry out his original intention of joining me, that he had investigated the company or the possibilities of the sand and gravel business, and was not satisfied that it would be lucrative enough to warrant him putting up \$25,000.

The CHAIRMAN. So you did not issue him any stock?

Mr. SISLER. No.

The CHAIRMAN. Who did comprise the company?

Mr. SISLER. Mr. C. L. Gray held one-fourth of the stock of the company, Mr. H. D. Mephram one-fourth, and Mrs. Sisler and myself the balance. In other words, we held 51 per cent of the stock of the company between us; I controlled the company.

The CHAIRMAN. Was Mr. Bolling interested in the company?

Mr. SISLER. He was not. I had endeavored to induce Mr. Bolling to join the company, but needing money and he not having it to invest at the time, why, he did not go in.

The CHAIRMAN. Did you confer with Mr. Sands on this matter?

Mr. SISLER. Quite frequently.

The CHAIRMAN. Quite frequently. Where would you see him about this?

Mr. SISLER. On most occasions in his bank, which was then located at Fourteenth and F Streets; on several occasions in his rooms at the Willard hotel, after hours.

The CHAIRMAN. Did you ever see Mr. Bolling there?

Mr. SISLER. I met Mr. Bolling once or twice at Mr. Sands's office, the first instance being at my request. I had Mr. Bolling come down, in the hopes that he might influence Mr. Sands to join me in the company, or if not, to help finance the company, he having told me previously that he could not go into it himself.

The CHAIRMAN. Mr. Bolling?

Mr. SISLER. Mr. Bolling.

The CHAIRMAN. When was the first time you ever saw Mr. Bolling at Mr. Sands's apartment in the Willard?

Mr. SISLER. It was during the period of my negotiating a loan for the company. I take it that was perhaps in April, 1918, on or about that date.

The CHAIRMAN. When was the next time you saw him there?

Mr. SISLER. Mr. Bolling?

The CHAIRMAN. Yes; in Mr. Sands's apartment at the Willard?

Mr. SISLER. I do not recall the exact date, Mr. Walsh. I should say, perhaps, it was, maybe several weeks, or maybe a month afterwards.

The CHAIRMAN. May, perhaps?

Mr. SISLER. Perhaps.

The CHAIRMAN. Could it have been later than that, do you think?

Mr. SISLER. Well, that is possible also. I only have the recollection of those two occasions, and I could not be specific as to the later date.

The CHAIRMAN. On the later date, was he there at your request?

Mr. SISLER. That I do not remember. It is possible.

The CHAIRMAN. While he was there the second time were you still endeavoring to interest Mr. Sands?

Mr. SISLER. I was.

The CHAIRMAN. In the sand and gravel company?

Mr. SISLER. Yes, sir.

The CHAIRMAN. And did you discuss it with him?

Mr. SISLER. I very seldom saw Mr. Sands without discussing it, because we were short of finances for the company, and I was endeavoring to get the necessary finances from him or anyone else who could make possible the necessary capital.

The CHAIRMAN. Did Mr. Bolling participate in the discussion upon the second occasion on which you saw him there?

Mr. SISLER. That I do not recall. It is possible that he may have stated to Mr. Sands that the sand business was a profitable one, but I am not certain of that.

The CHAIRMAN. Do you know Mr. John Cranor?

Mr. SISLER. I met Mr. John Cranor in the Willard Hotel, I think it was, through Mr. Sands on one occasion.

The CHAIRMAN. When?

Mr. SISLER. That was about the time I was attempting to finance the sand company, I imagine that may have been in the month of May, 1918.

The CHAIRMAN. In Mr. Sands's apartment?

Mr. SISLER. That I do not know, whether it was in the lobby or in his apartment. It is possible it may have been in his apartment.

The CHAIRMAN. On what floor was Mr. Sands's apartment in the Willard?

Mr. SISLER. Well, I would call it the second floor. It is sort of a mezzanine balcony, where he had his suite.

The CHAIRMAN. Do you remember how many rooms he had?

Mr. SISLER. Well, I never invaded his apartment further than his living room, but I imagine he had a suite of several rooms.

The CHAIRMAN. When you were there upon these two occasions that you saw Mr. Bolling there, were there other people there also?

Mr. SISLER. I am rather inclined to think there were, because I do not believe I was ever in Mr. Sands's apartment unless someone else was present—either his wife or daughter; or there was usually a coterie of people around the hotel there who, apparently, were more or less interested in various enterprises with Mr. Sands.

The CHAIRMAN. He was apparently transacting business there at his hotel apartment?

Mr. SISLER. I took it that he was, otherwise I would not have intruded on his apartment after office hours, if I had not thought so.

The CHAIRMAN. Did you try to interest Mr. Cranor in this sand and gravel company?

Mr. SISLER. I only met Mr. Cranor at that time, on the one occasion and I did not know the man—knew nothing about him; I did not speak to him on that occasion, or any other occasion since, looking to his interest in the company.

The CHAIRMAN. Well, what do you mean; you were just introduced to him, just casually chatted with him, and that is all that took place at that time?

Mr. SISLER. I do not recall, Mr. Walsh, at this time what the discussion was about. Mr. Sands had a faculty, when he had his friends about—I would meet him quite frequently in the alley of the Willard Hotel, and he would stop and introduce me to people, and usually gave my title as secretary of the Shipping Board. I do not know what the object of it was, other than the fact that he would impress these people that he was very well acquainted with me. That, however, was a practice indulged in by almost every one who knew me, so I do not hold any umbrage against Mr. Sands for that.

The CHAIRMAN. People who knew you and introduced you to their friends would usually give you your title?

Mr. SISLER. Usually lay emphasis on that; yes.

The CHAIRMAN. They may have desired to create the impression that they had the honor of the acquaintance of the secretary of the Shipping Board, or they may have desired to have their friends meet you as secretary of the Shipping Board?

Mr. SISLER. Both of which is more than probable.

The CHAIRMAN. Yes. Now, do you know Mr. Wallace Downey?

Mr. SISLER. I do not recall ever having met Mr. Downey. It is possible that he, like others, may have come to my office while secretary of the board, but I have no recollection whatever of ever having met the gentleman.

The CHAIRMAN. Who was chairman of the board when you first went there?

Mr. SISLER. Mr. Denman.

The CHAIRMAN. Did you ever have any controversy with him about Shipping Board matters?

Mr. SISLER. None whatever. Mr. Denman's incumbency in office was only a little over—practically a month, while I was there.

The CHAIRMAN. Did you ever have any controversy with any other member of the Shipping Board while you were there?

Mr. SISLER. Well, if you mean traveling over troublesome waters, daily; 50 times a day.

The CHAIRMAN. With respect to Shipping Board matters and the way business was going?

Mr. SISLER. That is it, sir.

The CHAIRMAN. Have you ever seen a photostat copy of this statement prepared in affidavit form, by Mr. Sands, which he subsequently declined to sign, involving you and Mr. Bolling in the payment of a commission of \$40,000 by Mr. Wallace Downey?

Mr. SISLER. I have not, only from the other end of this table. I have never had occasion to—

The CHAIRMAN. You have never examined it?

Mr. SISLER. I have never been shown it.

The CHAIRMAN. When first did you know there was such a photostat copy?

Mr. SISLER. I did not know that it was a photostat copy, but I was told by Mr. Fisher and Mr. Richardson just prior to your committee coming to New York, I take it, that there was such a paper in evidence.

The CHAIRMAN. Did Mr. Meehan ever come to see you about that?

Mr. SISLER. He did not.

The CHAIRMAN. Did Mr. Huston Thompson come to see you?

Mr. SISLER. No, sir.

The CHAIRMAN. About the contents of this paper, or about the matter which I spoke of, the \$40,000 payment?

Mr. SISLER. No one from the Department of Justice or the Shipping Board either, have ever interviewed me regarding this matter.

The CHAIRMAN. Did anybody else besides Mr. Fisher speak to you about it, that you know of?

Mr. SISLER. Other than Mr. Richardson.

The CHAIRMAN. Other than Mr. Richardson?

Mr. SISLER. He accompanied Mr. Fisher the day they called on me, and Mr. — one of your assistants, I believe a Mr. Maxwell, called at my office one day and asked me whether or not I had been interviewed by anyone recently from the Shipping Board.

The CHAIRMAN. There are four typewritten pages of this, Mr. Sisler. I would be very glad if you would read it over before I ask you the next question about it.

Mr. SISLER. Yes, sir. [Reads photostatic copy.]

The CHAIRMAN. Did you ever have a conference with Mr. Sands, Mr. Cranor, and Mr. Bolling, in Mr. Sands's apartment in the Willard Hotel, in his office in the bank or anywhere else, with reference to the placing of a contract with the Shipping Board for the Downey Shipbuilding Corporation or the Providence Engineering Corporation, at which conference it was agreed between you that a commission or the sum of \$40,000 should be divided amongst you?

Mr. SISLER. I had no such conference.

The CHAIRMAN. Did Mr. Sands ever ask you to use your influence with the Board so that the Providence Engineering Corporation could secure a contract?

Mr. SISLER. I have no recollection of it, if he ever did. I am practically certain that he did not, else I would have remembered it.

The CHAIRMAN. Well, did you intercede with any member of the Shipping Board or the Fleet Corporation or any official having to do with recommending or awarding contracts?

Mr. SISLER. No, sir; I did not.

The CHAIRMAN. In behalf of the Providence Engineering Corporation?

Mr. SISLER. In no instance.

The CHAIRMAN. Did Mr. Bolling ever ask you to help the Providence Engineering Corporation get a contract?

Mr. SISLER. Not to my recollection, sir.

The CHAIRMAN. Did Mr. Cranor ever ask you?

Mr. SISLER. No, sir.

The CHAIRMAN. Did Mr. Downey ever ask you that?

Mr. SISLER. No; for the reason that I never recall having met Mr. Downey.

The CHAIRMAN. Well, have you had any difficulty or controversy with Mr. Tucker K. Sands?

Mr. SISLER. Yes; I should say I have had difficulty with him, particularly in the last—growing out of my relation with him as a result of the investigation of your committee during the past two weeks. I have not seen Mr. Sands since the latter part of 1918.

The CHAIRMAN. Prior to this investigation had you had any controversy or difficulty with him?

Mr. SISLER. Mr. Sands came to me on or about the time of his indictment for some infringement of the Federal banking laws, and asked me to intercede with Mr. Bolling, or any other friend that I may have had, to quash his indictment. Mrs. Sands on numerous occasions, when I would meet her perhaps on the street or in the hotel, likewise besought me.

The CHAIRMAN. They besought you to do what?

• Mr. SISLER. To exert my influence with either Mr. Bolling or some other of my friends, if I had any with influence, to assist him in quashing his difficulties with the Department of Justice.

The CHAIRMAN. Did you do it?

Mr. SISLER. I did not. I spoke to Mr. Bolling about it. I had no clear recollection of what the violations of the banking laws were, but Mr. Sands having accommodated me financially in the bank, personally, I spoke to Mr. Bolling and asked him if it was something that he might legitimately do for Mr. Sands; that I thought he would confer a favor on him as well as myself if he would do it.

The CHAIRMAN. When was it you asked him this?

Mr. SISLER. I should say in September, 1918.

The CHAIRMAN. September, 1918?

Mr. SISLER. On or about the latter part of September, I take it.

The CHAIRMAN. Well, did you ever ask any other of your friends to help him?

Mr. SISLER. No; I did not. Mr. Bolling, when I spoke to him, informed me that Mr. Sands had come to him with a similar request, but that he could not under any circumstances intercede; that there was nothing in the case that he could help Mr. Sands, in fact, with the Attorney General or Mr. McAdoo or anyone else; Mr. Sands having told me that Mr. Bolling knew all of these people very well, and he felt that if he put himself out just a little that he could perhaps quash the whole affair. Mr. Sands became somewhat peeved at me, I take it, as well as Mrs. Sands, because they felt that I was not adhering to the truth when I told them I had no influential friends that might be of assistance to them, and through inuendoes and unfriendly deductions I took it that my relations from then on would not be as happy as they had been in the past.

The CHAIRMAN. That was in September, 1918?

Mr. SISLER. On or about the latter part of September, 1918.

The CHAIRMAN. Did you ever see him after that?

Mr. SISLER. I do not recall having seen Mr. Sands but once and that was in the Waldorf Hotel in New York, but whether he recognized me or not—I spoke to him as I went by, but had no conference with him.

The CHAIRMAN. Did you ever have any talks with him or his wife after the latter part of September, 1918?

Mr. SISLER. No; I do not recall having seen either of the parties to confer with since that time. That may have been the end of October; I am not certain.

The CHAIRMAN. But you did speak to Mr. Bolling?

Mr. SISLER. I did.

The CHAIRMAN. And asked him if he could not do something to help him?

Mr. SISLER. I did.

The CHAIRMAN. Did you tell Mr. Sands that?

Mr. SISLER. Yes, sir.

The CHAIRMAN. And they got peeved?

Mr. SISLER. Very much so.

The CHAIRMAN. Because you did what they asked you to?

Mr. SISLER. Well, they did not feel that I had exerted enough effort, and I do not believe either of them believed me, that I could not appeal to somebody, because they pointed out to me that I could not have occupied the office as secretary of the Shipping Board without having had some influence to get it, because positions were not ordinarily gotten other than through influence.

The CHAIRMAN. They directed your attention to that, did they?

Mr. SISLER. They did. Mr. Sands felt, I think, that I had secured my position through the efforts of Mr. McAdoo. I assured him that I had only met Mr. McAdoo on one or two occasions, and that was just casually. I do not think Mr. McAdoo would recall either one of the meetings.

The CHAIRMAN. How did you secure your position?

Mr. SISLER. I was tendered the position by Mr. Denman.

The CHAIRMAN. Well, you were chief clerk of the Interstate Commerce Commission?

Mr. SISLER. Chief clerk of the Interstate Commerce Commission; yes, sir. They were looking for a secretary to the board and my name was called to the attention of Mr. White, who was going through the offices of the Interstate Commerce Commission, we having decided to vacate that building and go into a new one. In the course of his going through the building he met me and asked me to call upon him. As an outgrowth of that meeting I was tendered, I think, the secretaryship of the board.

The CHAIRMAN. Did you ever have any transactions with Mr. Sands which involved the payment to you of any sum of money through checks?

Mr. SISLER. Yes, sir.

The CHAIRMAN. What were they?

Mr. SISLER. After Mr. Sands had loaned my associates on my indorsement \$5,000, and after on numerous occasions I had pointed out to him that I was in a very embarrassing position financially in carrying out the construction of my sand company, he and another gentleman came to me one day and stated that I could go into a syndicate with them, whereby I could perhaps make a whole lot more money than through my efforts in sand and gravel.

The CHAIRMAN. Who was the other gentleman?

Mr. SISLER. A Mr. Musher.

The CHAIRMAN. Who was he; had you known him before?

Mr. SISLER. I knew Mr. Musher in Washington. He was president, I think, of the Pompeian Olive Oil Co.

The CHAIRMAN. Yes. What was this other syndicate?

Mr. SISLER. Mr. Musher told me of the opportunity at that time of buying foreign exchange.

The CHAIRMAN. When was this?

Mr. SISLER. That was in July, I think, 1918.

The CHAIRMAN. July, 1918. Well now, what came of that?

Mr. SISLER. I took Mr. Musher at his word, and desiring to raise money in any manner, shape, or form that was legitimate for the purpose of finishing my sand plant, I investigated the possibilities of the purchase of this exchange and went in the pool with them.

The CHAIRMAN. How much money did you put in?

Mr. SISLER. Well, I put some of my own money, in all about \$5,000.

The CHAIRMAN. Where did you get the balance to make up the \$5,000?

Mr. SISLER. Well, it was approximately \$5,000 to \$4,500.

The CHAIRMAN. What was there about that transaction that involved the payment of money to you through checks by Mr. Sands?

Mr. SISLER. From what I could understand, Mr. Musher then took me to Mr. Sands, who explained just how the syndicate would work.

The CHAIRMAN. I thought you said that Mr. Sands and Mr. Musher came to see you about the matter?

Mr. SISLER. They did, they spoke to me about it. Mr. Musher came to my office, and not being satisfied to go into an affair of that sort without an investigation, I consulted Mr. Sands, who gave me his version of the matter, and I subsequently consulted them both together, with the result that we bought the foreign exchange, and my participation in it was supposed to be five to one; that is, I was buying on a 20 per cent margin. With the money I put up I should have had purchased for me \$25,000 of this exchange.

The CHAIRMAN. Yes. Well, what happened?

Mr. SISLER. The exchange was purchased, I counted from day to day by looking at the papers the profits I had made, and when it got up to about \$12,000, that would have come to me as clear profit; coincident with that Mr. Musher came to me and asked me would I be satisfied with 100 per cent of my investment. Well, I told him I would not. He told me that they were called on to sell a part of this exchange, and my portion would have to be sold. I thereupon told him, I thought that if any of the securities were sold at all it should be on a pro rata basis; we were to take our profits as of that date. He told me then he thought my share would have to go, and I ought to be satisfied with a \$5,000 profit. I stuck out that I would not be, and asked him had he been sent to me by Mr. Sands. And he informed me that they together had agreed that such exchange as has been sold as of that date should be taken out of my portion.

The CHAIRMAN. Well, what do you mean, they were trying to trim you?

Mr. SISLER. No; I would not say that. I was invited into the pool at their own solicitation, and having offered me a profit of \$5,000 I take it that they thought I should be satisfied with that.

The CHAIRMAN. Were you?

Mr. SISLER. I was not.

The CHAIRMAN. Well, were you settled with on that basis?

Mr. SISLER. I received \$5,000 on account, without commitment on my part that I would settle for a total of \$10,000.

The CHAIRMAN. You received back the original \$5,000?

Mr. SISLER. Yes, sir.

The CHAIRMAN. Did you receive anything further?

Mr. SISLER. I did. I waited several days, or perhaps a week, and called on Mr. Sands for an accounting. All the exchange had been

sold. I wanted to know how much actual cash had been put up, through what banks or bank the exchange had been purchased, how much money each of the others in the syndicate had put up, and to give me an accounting.

I would gamble myself, if I was not entitled to more than \$5,000 profit then if he rendered me a proper accounting I would be satisfied with that. I did not get such an accounting, I was short in the sand company for construction, and interviewed Mr. Sands on numerous occasions at his bank asking for an accounting or a further payment. I finally succeeded, I think in October, or maybe the latter part of September, in securing an additional \$5,000.

The CHAIRMAN. How did you get that?

Mr. SISLER. I drew a check, made out to the credit of the American National Bank for \$5,000, on the Commercial Bank. I did not have that amount of money in the Commercial Bank at that time. I told——

The CHAIRMAN. Well, wait just a moment. You drew a check on the American National Bank?

Mr. SISLER. No; I drew a check payable to the American National Bank, on the Commercial Bank, for \$5,000, I having left instructions with the cashier of the American Bank that I did not want the check to go to protest, for the reason that I did not have \$5,000 in the Commercial Bank, but that Mr. Sands owed me that money on a deal I had been in with him, and I thought it might be possible, through that subterfuge, to get him to make the payment, I having gone to Mr. Sands and told him that I had drawn the check, that it was absolutely obligatory on his part to pay it, because I needed the money at that time for the sand company. I told him I would overdraw my account if it was not so; I had pressing obligations, machinery, and otherwise; and he honored the check.

The CHAIRMAN. How did you get the first \$5,000 back?

Mr. SISLER. Why, Mr. Musher came to me and asked me whether or not I would be satisfied with the profit of \$5,000. I told him I was not, but as long as they were selling some of this exchange, why, I might as well take some money as well as anyone else. I would feel less nervous at getting my original investment back, which I did.

The CHAIRMAN. How did you get the first \$5,000?

Mr. SISLER. Back? I am not certain, Mr. Walsh, whether or not that was through a check of Mr. Sands or Mr. Musher. I did not lose much time in cashing it, and depositing it in the Commercial Bank.

The CHAIRMAN. Deposited it in the Commercial Bank?

Mr. SISLER. I am sorry I have not my records. When I was in Newfoundland in May last I was forced to leave my office at 100 Broadway during the reconstruction of that building, and most of my private records were lost but I think I can substantiate that by getting the record from the American Bank.

The CHAIRMAN. Did the American Bank have anything to do with this first payment?

Mr. SISLER. They did not.

The CHAIRMAN. Then how can you substantiate that first payment by the American Bank?

Mr. SISLER. I would not substantiate the first one; it was the second one I drew.

The CHAIRMAN. That is what I am asking about, the first payment?

Mr. SISLER. That, I say, was by a check through, I think, Mr. Musher or Mr. Sands.

The CHAIRMAN. Mr. Musher or Mr. Sands?

Mr. SISLER. I do not recall who gave me the check.

The CHAIRMAN. Well, how long after you got the first \$5,000 was it before you put this check through the Commercial Bank?

Mr. SISLER. Several weeks, perhaps say three weeks, maybe four weeks.

The CHAIRMAN. When do you say that Mr. Musher or Mr. Sands gave you a check for \$5,000, which was your original investment?

Mr. SISLER. In September, I think.

The CHAIRMAN. In September?

Mr. SISLER. 1918.

The CHAIRMAN. Now, several weeks after that you drew this check, payable to the American National Bank?

Mr. SISLER. With instructions to place it to my credit, if honored.

The CHAIRMAN. How many weeks after?

Mr. SISLER. Within 30 days, I take it.

The CHAIRMAN. The latter part of October?

Mr. SISLER. To the best of my recollection.

The CHAIRMAN. That was about the same time that Mr. Sands became dissatisfied with you for not exerting more influence to get him out of his difficulty?

Mr. SISLER. On or about the same time.

The CHAIRMAN. Do you say that Mr. Sands was vice president of the Commercial National Bank in October, 1918?

Mr. SISLER. I think he was still connected with the bank at that time.

The CHAIRMAN. After he was indicted?

Mr. SISLER. I am not certain as to the date of his indictment, but I think he continued in office until after his indictment.

The CHAIRMAN. As vice president?

Mr. SISLER. Yes, sir.

The CHAIRMAN. Was that all the money you got out of it—100 per cent?

Mr. SISLER. Indirectly; I attended one of your meetings last Friday for about an hour, and heard a part of Mr. Sands's testimony, and he referred to a note of \$5,000 which he had really held me accountable for, and I took it that he feels as if I owe him that money. That note, I think, is curtailed by the amount of \$500 and interest of \$75 or \$80; I think it was a 90-day note, and no demand was ever made on me after the note became due, and no demand has been made on me up to date, as to its payment.

The CHAIRMAN. You are not sure, then, Mr. Sisler, that you had any transactions with Mr. Sands arising out of this foreign exchange which involves the payment of money to you by Mr. Sands through check?

Mr. SISLER. Yes; I take it that my check on him, on his bank, and the fact that that check was honored, might be so considered; and the first payment, when I got my original investment back, may have been his check for \$5,000.

The CHAIRMAN. Can you not remember how you got back your original investment; whether you got it back by a check?

Mr. SISLER. I do.

The CHAIRMAN. From Sands or a check from Musher?

Mr. SISLER. I got it back by a check, but, as I stated to you a moment ago, I am not certain at this time whether it was signed by Sands or Musher.

The CHAIRMAN. Who else was in the syndicate?

Mr. SISLER. Well, of my own knowledge, I do not know. I had my own ideas as to who else was in it.

The CHAIRMAN. Well, did you go into a syndicate and put \$5,000 in it without knowing who were in the scheme?

Mr. SISLER. Not exactly. I think one of the other vice presidents of the Commercial Bank was in the syndicate, as well; a man in whom I had the utmost confidence.

The CHAIRMAN. What was his name?

Mr. SISLER. Mr. Cahill.

The CHAIRMAN. Of the Commercial National Bank?

Mr. SISLER. Yes, sir.

The CHAIRMAN. Was anybody else in it?

Mr. SISLER. I was not told who the others were.

The CHAIRMAN. Did you ask?

Mr. SISLER. I did; and I was told there were people in official life occupying more exalted offices than my own in the syndicate.

The CHAIRMAN. Did that make the scheme more alluring to you, or make you more cautious?

Mr. SISLER. Both.

The CHAIRMAN. It made you both. It did not make you cautious enough to ascertain who these gentlemen in official life actually were, did it?

Mr. SISLER. It actually did.

The CHAIRMAN. Well, did you ascertain?

Mr. SISLER. To my satisfaction; yes, sir.

The CHAIRMAN. Who were they?

Mr. SISLER. I was taken down to the Capitol, and with Mr. Musher interviewed a Senator of the United States, to whom he presented me. His name is not material; I would rather not indicate it.

The CHAIRMAN. Is that the only other person you knew who was in the syndicate?

Mr. SISLER. Yes; other than what I was told.

The CHAIRMAN. Other than what you were told?

Mr. SISLER. Yes.

The CHAIRMAN. Well, did you attempt to verify what else you were told, as to who were in the syndicate?

Mr. SISLER. At my conference at the Capitol I was satisfied that my money would be safe. As a result of that conference I left with the impression that I had made a safe investment.

The CHAIRMAN. When was this, Mr. Sisler?

Mr. SISLER. I think that was in August; July or August, I think, of 1918. It is possible it may have been the fore part of July.

The CHAIRMAN. The fore part of July; and in about September Mr. Musher was negotiating with you to see whether you would accept 100 per cent?

Mr. SISLER. That is correct, sir. Having consulted the daily papers, and figuring with very easy mathematical calculation that I

was entitled to more, I of course refused to be satisfied with 100 per cent.

The CHAIRMAN. You wanted just as much as the persons in official life were getting?

Mr. SISLER. No; I wanted as much as those who were in the pool were getting.

The CHAIRMAN. Those who were in the pool; yes.

Mr. SISLER. Yes, sir.

The CHAIRMAN. You saw no reason why you should be discriminated against in the distribution of the profits?

Mr. SISLER. None whatever.

The CHAIRMAN. Was there any writing—written agreement—as to this transaction?

Mr. SISLER. I had none.

The CHAIRMAN. Well, did you sign any?

Mr. SISLER. No.

The CHAIRMAN. Did you see any?

Mr. SISLER. I did not; simply a verbal gentleman's agreement.

The CHAIRMAN. The \$5,000 profit you secured, you said, by drawing a check, payable to the order of the Commercial National Bank?

Mr. SISLER. Yes, sir; on the Commercial.

The CHAIRMAN. On the Commercial Bank, and depositing it in the American Bank?

Mr. SISLER. That is correct, sir.

The CHAIRMAN. And telling the American Bank that you did not have \$5,000 in the Commercial Bank?

Mr. SISLER. That is correct, sir.

The CHAIRMAN. Well, who was the cashier of the American Bank that you told that to, or the official?

Mr. SISLER. I think it was a Mr. Waller, who was an assistant cashier, as well as a Mr. West, both being assistant cashiers.

The CHAIRMAN. Did they demur to that arrangement?

Mr. SISLER. They did not.

The CHAIRMAN. Well, do you know how long afterwards it was before that check was made?

Mr. SISLER. I think two days afterwards I inquired very specifically as to whether or not my account had been credited with said \$5,000, and was informed that it had been; and to satisfy myself that that was so, I think as soon as I found that out I withdrew the \$5,000 and deposited it in the Commercial.

The CHAIRMAN. To your own account?

Mr. SISLER. To my own account.

The CHAIRMAN. Are you still a member of this syndicate or pool?

Mr. SISLER. Unfortunately, no.

The CHAIRMAN. When did you get out?

Mr. SISLER. On the honoring of my \$5,000 check was the last accounting I have had.

The CHAIRMAN. Well, that was an accounting you made yourself, was it not?

Mr. SISLER. Substantially so.

The CHAIRMAN. Did you talk with Mr. Musher after that about it?

Mr. SISLER. Yes; I talked to Mr. Musher several times, and told him that I felt I was entitled to a great deal more money than \$5,000, and asked him to intercede with Mr. Sands to give me some sort of

an accounting, as to how much money had been put in the syndicate, the amount of exchange purchased, and what division of profits had been made.

The CHAIRMAN. Did you get it?

Mr. SISLER. Up to this date I have never received any accounting whatsoever.

The CHAIRMAN. Well, have you talked with Mr. Sands since?

Mr. SISLER. I have not.

The CHAIRMAN. Did you ever have any other business transactions with Mr. Sands involving the payment of money to you by check?

Mr. SISLER. Not necessarily by check. I guess I borrowed from Mr. Sands or his bank on innumerable occasions, sums of money for which I was financing the sand company. In most instances I think a note was given. I think the records of the Commercial National Bank will show my various loans. If the committee desires it, I will be glad to have a statement prepared by the Commercial National Bank and furnish it.

The CHAIRMAN. Yes; I think we would like to have that, Mr. Sisler.

Mr. SISLER. Unfortunately, in the change of my offices, as I said, I lost most of my canceled notes; but certain of them should be in the files of the Washington Sand and Gravel Co.

The CHAIRMAN. Where is that office now?

Mr. SISLER. They have an office in the Munsey Building, in Washington, and also an office in Philadelphia, the company now being controlled by Philadelphia interests.

The CHAIRMAN. You sold out?

Mr. SISLER. I did.

The CHAIRMAN. Were all the notes that you gave paid at maturity?

Mr. SISLER. To my recollection, with the exception of the note before you there, of \$5,000 [indicating].

The CHAIRMAN. Well, this was a 90-day note, given May 1, 1918. That was not paid?

Mr. SISLER. It was not paid by me.

The CHAIRMAN. Well, you did not make it.

Mr. SISLER. I was an indorser on that note.

The CHAIRMAN. Who reduced it by the payment of \$500 and interest?

Mr. SISLER. I had Mr. Gray, who really got the money, to invest in the sand company, make that payment of \$500.

The CHAIRMAN. Did you hear Mr. Sands testify the other day?

Mr. SISLER. I heard him for about an hour last Friday, the latter part of his testimony I think it was.

The CHAIRMAN. Did you hear him testify that you got this \$5,000 note, and that you got altogether \$20,000 on account of the sale of a ship?

Mr. SISLER. I heard him make that statement; yes, sir.

The CHAIRMAN. Well, what do you say?

Mr. SISLER. But I have no clearer recollection than Mr. Sands apparently had. Not knowing the name of the ship, nor who sold the ship, I am not certain as to what particular transaction he may have referred to, other than what is stated in the affidavit. I notice he uses the name of an individual, named Dockendorf.

The CHAIRMAN. Were you connected with any transaction at all involving the sale of a ship?

Mr. SISLER. Not to my knowledge, not while with the board.

The CHAIRMAN. Well, since you left the board?

Mr. SISLER. I have attempted to sell a lot of ships, without any success, however.

The CHAIRMAN. You have not sold any?

Mr. SISLER. No.

The CHAIRMAN. Do you know that Mr. Sands was indicted on September 30, 1918?

Mr. SISLER. No; I did not know. I knew it was on or about that date.

The CHAIRMAN. But you think in the latter part of October, 1918, he was still in office in the Commercial National Bank?

Mr. SISLER. I am not certain of that, Mr. Walsh. To the best of my recollection he was still with the bank during the whole time of my negotiations with him. It is possible that may have been the forepart of October, but as I recall he was still there in the month of October.

The CHAIRMAN. Can you give the committee any reason that occurs to you, which may be based upon your dealings with Mr. Tucker K. Sands, why he should charge that you, Mr. Bolling, Mr. Cranor, and himself entered into an agreement to divide \$40,000, which was to be paid by Mr. Wallace Downey, for the securing of a contract for the Downey Corporation or the Providence Engineering Corporation, in the securing of which you and Mr. Bolling were to use your influence with the Shipping Board officials toward having the contract awarded?

Mr. SISLER. The only theory whatever which I could advance would be by reason of my failure to aid him in his trouble.

The CHAIRMAN. That is the only thing that you know of?

Mr. SISLER. I am at a loss to understand any other reason that would prompt Mr. Sands to make such an accusation.

The CHAIRMAN. Is that a photostat copy of the note which you indorsed [handing witness paper]?

Mr. SISLER. I take it that it is a photostat copy. That is my signature on the back of the note.

The CHAIRMAN. Well, is that the original note that you indorsed [handing witness another paper] ?

Mr. SISLER. That is, sir.

The CHAIRMAN. Will you compare it with the photostat copy and see whether that is the photostat copy of the note?

Mr. SISLER. I would say it was; yes, sir.

The CHAIRMAN. That may be put in the record.

(The note reads as follows:)

WASHINGTON, D. C., May 1, 1918.

Ninety days after date I promise to pay to the order of H. D. Mephram \$5,000 (five thousand dollars), at the Commercial National Bank, of Washington, D. C. Value received, with interest at the rate of — per cent per annum, until paid. Due July 30.

C. L. GRAY,

Railway Exchange Building, Kansas City, Mo.

Indorsements: July 31, 1918, by payment, \$575.

H. D. MEPHAM.
LESTER SISLER.

The CHAIRMAN. Did you actually get from Mr. Sands or anybody else any money on account of the award of a contract to the Downey Shipbuilding Corporation, or to the Providence Engineering Corporation?

Mr. SISLER. Never to my recollection. I think if any such payment had been made I would have known about it.

The CHAIRMAN. Were you ever told by Mr. Sands or anybody else that there was \$5,000 or more coming to you and that this note of May 1, 1918, would not be presented for payment?

Mr. SISLER. Mr. Sands has never referred to the note to my knowledge since it was negotiated.

The CHAIRMAN. Has he ever discussed any matter relating to the Downey Shipbuilding Corporation or the Providence Engineering Corporation contracts with you?

Mr. SISLER. Not to my recollection. It is possible that on some occasion I may have met him that he would have referred to this matter, but he usually was so vague about his schemes that I never could get any intelligent presentation of the case. To my knowledge he has never referred to this matter in any manner, shape, or form to me.

The CHAIRMAN. Has anybody else referred to it to you?

Mr. SISLER. It is possible some one may have come to my office, as secretary, regarding the contract; but I have no recollection at this time who that individual may have been.

The CHAIRMAN. How about the payment of money for securing the contract?

Mr. SISLER. I can only reiterate just what I have stated, that no such payment was ever made.

The CHAIRMAN. I know, but has anybody referred to it in talking with you?

Mr. SISLER. They have not, other than the committee and the investigators.

The CHAIRMAN. Yes; but I mean along about this time.

Mr. SISLER. Oh, no.

The CHAIRMAN. After you had put this check through for \$5,000 and secured the money and deposited it with the Commercial National Bank, did you talk with Mr. Sands again?

Mr. SISLER. Very vociferously, I should say, about honoring the check; he claiming at the time that it was causing him to be short of funds, inasmuch as all of the exchange had not been sold, and stated to me that I had embarrassed him by making the demand at a very inopportune time.

The CHAIRMAN. Where did this talk take place?

Mr. SISLER. In his bank.

The CHAIRMAN. The Commercial National Bank?

Mr. SISLER. Yes, sir.

The CHAIRMAN. The latter part of October?

Mr. SISLER. Well, it may have been the fore part of October. It was along about the time, shortly after the check had been honored. That, I think, was in the early part of October.

The CHAIRMAN. And you think you got your original investment back in the early part of September.

Mr. SISLER. The latter part of September.

The CHAIRMAN. Did you not say there was a month between the time you got your original investment back——

Mr. SISLER. Several weeks, I stated. It may have been the latter part of one month, after the 15th, and before the 15th of October. Anyway, there was an interval to my knowledge of several weeks.

The CHAIRMAN. Well now, how many weeks do you call several?

Mr. SISLER. Two or three.

The CHAIRMAN. Two are several?

Mr. SISLER. Yes, sir.

The CHAIRMAN. So it might have been two or three weeks?

Mr. SISLER. Yes, sir.

The CHAIRMAN. And he told you that by your drawing a check payable to the American National Bank, on the Commercial National Bank, you had seriously hampered him because he was short of funds?

Mr. SISLER. Yes, sir.

The CHAIRMAN. Did you believe it?

Mr. SISLER. I was rather inclined to believe it at the time, for the reason that I think Mr. Sands was in so many things that he doubtless made a lot of investments. I know Mrs. Sands told me on several occasions about her dealing in the stock market, and I imagine that——

The CHAIRMAN. Well, how could the drawing of that check by you on your account in the Commercial National Bank hamper Mr. Sands in any way whatever?

Mr. SISLER. Because he honored the check. He deposited to my account in the Commercial the necessary funds to meet the check.

The CHAIRMAN. Where was there any obligation on his part to do that?

Mr. SISLER. A gentleman's agreement, the fact that I had gone into this syndicate with him and had gone to him immediately on my drawing the check through the American Bank, and informing him exactly what I had done, and asked him to be certain that that check was met when presented.

The CHAIRMAN. Did he tell you he would?

Mr. SISLER. He said, as I recall now, that he did not know whether he could or not, but I told him that it simply had to be met.

The CHAIRMAN. You went and drew a check on your account, when you did not have the funds there, and then you went to the vice president of the bank upon which you drew the check, and told him he must meet that check?

Mr. SISLER. Yes, sir; that is correct.

The CHAIRMAN. Mr. Sisler, the gentleman's agreement was not carried out, was it?

Mr. SISLER. Not to the letter, as I still feel at this time that I am entitled to an accounting as a result of this syndicate.

The CHAIRMAN. Have you tried to get it?

Mr. SISLER. I have not seen Mr. Sands since I left Washington, and have not interviewed him since.

The CHAIRMAN. Did you visit Capitol Hill and ask the distinguished gentleman in official life to assist you in getting an accounting?

Mr. SISLER. I did not, sir.

The CHAIRMAN. Did you visit any of the other gentlemen whom you were assured were interested in this project?

Mr. SISLER. I spoke to Mr. Musher several times.

The CHAIRMAN. Did Mr. Sands object to your drawing this check, when you went to him and told him you had drawn it?

Mr. SISLER. He did.

The CHAIRMAN. You knew Mr. Sands had been connected with that bank for some time?

Mr. SISLER. Yes, sir.

The CHAIRMAN. And the only thing which was in existence, which made it in any way an obligation on Mr. Sands's part to honor that check, was a gentleman's agreement?

Mr. SISLER. The most sacred of all agreements; yes, sir.

The CHAIRMAN. Without any evidence in writing?

Mr. SISLER. No evidence in writing whatever.

The CHAIRMAN. And this was in the middle part of October, possibly?

Mr. SISLER. No. Just what do you refer to as being the middle part of October?

The CHAIRMAN. When you drew this check and went to him and told him, the vice president of the bank, that you had drawn a check to your account on that bank for \$5,000, and you knew the money was not there, but that bank has got to meet that check.

Mr. SISLER. I did not say directly the bank had to.

The CHAIRMAN. That he had to meet it?

Mr. SISLER. Somebody had to meet it.

The CHAIRMAN. The vice president of that bank?

Mr. SISLER. Yes, sir.

The CHAIRMAN. That was in the middle of October, you think?

Mr. SISLER. I think so.

The CHAIRMAN. Did you know at that time that he had been indicted?

Mr. SISLER. I did not know positively that he had been indicted, but I knew that he had been accused of having violated some Federal banking law. The local papers had the story. I heard it through bank officials and others.

The CHAIRMAN. How long after that was it you left the Shipping Board?

Mr. SISLER. I left the Shipping Board in the latter part of March, 1919.

The CHAIRMAN. Did Mr. Sands ever make payments to you in any matters, in any transactions that you had with him, in the total of \$20,500?

Mr. SISLER. It may have totaled that through loans which were negotiated through his bank.

The CHAIRMAN. For the sand and gravel company?

Mr. SISLER. Yes. I made personal loans through his bank also. I made personal loans of Mr. Sands, but always gave a note.

The CHAIRMAN. For \$20,500, you think?

Mr. SISLER. I would not say that they would aggregate that. There might be more. I think there was more than that negotiated through him and his bank as well.

The CHAIRMAN. Well, all he originally agreed to put in was \$25,000, was it not?

Mr. SISLER. That is all; but if I could have got the bank to loan me \$100,000 I would have readily accepted the loan.

The CHAIRMAN. Well, why did you not try drawing a check for \$100,000 payable to your sand and gravel company, and telling him that he had got to meet that check?

Mr. SISLER. If I had thought at the time Mr. Sands would have honored a \$100,000 check I doubtless would have drawn it.

The CHAIRMAN. You thought \$5,000 was his limit?

Mr. SISLER. Big enough.

The CHAIRMAN. After he had been indicted?

Mr. SISLER. No; I would not say that; but I felt that his means were such that he could at least meet that.

The CHAIRMAN. In this statement, Mr. Sisler, Mr. Sands said that he has a note indorsed by you for \$5,000, "but I have never made any attempt to collect the remaining \$4,500, because I considered that it was owing to him on account of the Downey commissions still unpaid." Now, did he ever tell you anything like that?

Mr. SISLER. He did not. He has never referred to that note, in my opinion, since the date the payment of \$575 was made.

The CHAIRMAN. Who made that payment?

Mr. SISLER. I had Mr. Gray make it.

The CHAIRMAN. To Mr. Sands?

Mr. SISLER. To Mr. Sands. He called on me at the time for the whole note; and I told him that we could not meet it; and he practically told me at the time it was negotiated, in view of his promise to finance the sand and gravel company, that it was highly possible that the notes could be extended. I told him we did not have much of a chance, when we negotiated it, of liquidating the whole amount when it would become due; but that we would give him as security as much of the stock of the sand company as he would require to protect him on the note. He never called on me for the security. It is possible that Mr. Gray may have given it to him.

The CHAIRMAN. Well now, can you offer any explanation why this note has never been presented for payment?

Mr. SISLER. My only theory now would be that Mr. Sands, through some hallucination, may have felt that I was a silent partner in his various endeavors before the Shipping Board and other departments, and had been gracious enough to forget that note; but if that is so he never informed me of it.

The CHAIRMAN. If he had that hallucination he has never told you about it?

Mr. SISLER. He has not.

The CHAIRMAN. And that is the only theory you have got about it?

Mr. SISLER. The only one, other than the fact that he may not have called on me for it because I did not get the \$5,000 myself. Five thousand dollars was gotten for Mr. Gray, and he spent that for and on behalf of the sand and gravel company.

The CHAIRMAN. Who paid the \$575?

Mr. SISLER. Mr. Gray.

The CHAIRMAN. Where is he now, do you know?

Mr. SISLER. I do not know. He was in Kansas City the last time I heard from him.

The CHAIRMAN. That is where he was when he signed the note, was he not?

Mr. SISLER. No; it was signed in Washington. He only gave his address as of that address.

The CHAIRMAN. How long before May 1, 1918, had this sand and gravel company been formed?

Mr. SISLER. Before May 1?

The CHAIRMAN. Yes, sir; 1918.

Mr. SISLER. I think we organized the sand company in March of that year.

The CHAIRMAN. March, 1918?

Mr. SISLER. I am not certain, it may have been February. The forepart of the year.

The CHAIRMAN. Well, have you talked with Mr. Gray about this note since it became due 90 days after the 1st of May?

Mr. SISLER. No. To protect myself at the time Mr. Gray gave me, I think, his note; afterwards, I think, and I think that was subsequently reduced through our arrangements in selling the sand and gravel company, it was practically an offset. I do not think Mr. Gray ever had any intention that he would be called on to meet that note.

The CHAIRMAN. Never had any what?

Mr. SISLER. I do not think he expected to be called on to meet that note.

The CHAIRMAN. Why not?

Mr. SISLER. He was looking to me to take care of it, I think.

The CHAIRMAN. But he gave you a note.

Mr. SISLER. He gave me a note; yes.

The CHAIRMAN. For \$5,000.

Mr. SISLER. Yes, and I think that is still held for collection by the Commercial.

The CHAIRMAN. Well, you said that he subsequently reduced it?

Mr. SISLER. I think so.

The CHAIRMAN. How much?

Mr. SISLER. I think \$500 or \$600.

The CHAIRMAN. You indorsed a note for \$5,000, which Mr. Gray had signed as the maker, and for that indorsement you took Mr. Gray's note?

Mr. SISLER. Not at the time. When we sold the sand company I think he then gave me his note, in the event that there was any necessity of his being called on, or my being called on, to meet this note.

The CHAIRMAN. Why was it reduced in any amount?

Mr. SISLER. I had given Mr. Gray a one-fourth interest in the company, by putting up a very small amount of capital, \$6,000 or \$7,000, I think, and I think after the company was sold, or we had negotiated a sale of the company, there was an outstanding obligation of \$5,000, and I think that brought about his note.

The CHAIRMAN. Which was the outstanding obligation of \$5,000?

Mr. SISLER. This present note here.

The CHAIRMAN. Well, you said he thought that he would not be called upon for payment.

Mr. SISLER. He did not think he would be called upon to pay it.

The CHAIRMAN. He did not think——

Mr. SISLER. No.

The CHAIRMAN. Well, who did he think would?

Mr. SISLER. I presume he felt that I would.

The CHAIRMAN. He was the maker of the note, was he not?

Mr. SISLER. Mr. Gray would not have gotten the money, if it had not been for my indorsement, I am practically certain of that.

The CHAIRMAN. You think that they would have called upon the indorser of the note before they made any demand on the maker of it?

Mr. SISLER. That is not ordinarily the course of events in banking, but they would first have to call on the maker before they could call on the indorsers.

The CHAIRMAN. Well, then, why do you think he would not be called on to pay that note? Why do you say that?

Mr. SISLER. I did not think so at the time. I say, I am inclined to the belief now. You asked me whether there was any reason why Mr. Sands should not have called on me to pay that note?

The CHAIRMAN. Yes.

Mr. SISLER. And I stated that from his testimony he apparently felt that I was in one of these—I think I used the expression his silent partner—and that he had not called on me to make payment. The real reason, in my opinion, why I think I never was called on was by reason of his failure to give me an accounting, as an outgrowth of the syndicate which I entered with him. As I told him at the time, if I owed him any money we would be guided by the accounting, either I would owe him money or he would owe me money. If I owed him money, I would be called on to pay the note. That is the reason I think he has never called on the maker or the indorsers to make payment of that note.

The CHAIRMAN. That if you owed him any money you would be called upon to pay this note?

Mr. SISLER. Yes, sir.

The CHAIRMAN. And if he owed you money?

Mr. SISLER. I would necessarily be obligated to liquidate that note to the extent of what I owed him.

The CHAIRMAN. Now, then, how was it going to be if he owed you money?

Mr. SISLER. Well, I would attempt to collect it.

The CHAIRMAN. You would not be called upon to pay this note?

Mr. SISLER. Well, I would not be obligated on that note at this time, anyway.

The CHAIRMAN. Well, what was there said by Mr. Gray which led you to believe that he understood he never would be called upon to pay this note?

Mr. SISLER. He was not called upon, apparently, at the date of maturity. Mr. Sands was satisfied to take a liquidation, or a payment on account of \$500 with interest to date, which I think amounted to \$75, and he would then consider it in the light of a demand note.

The CHAIRMAN. But you say that Mr. Gray gave you to understand that he did not expect to be called upon to pay this note?

Mr. SISLER. That is my recollection of it, because he had taken the money which was derived from discounting that note, and utilized it for and on behalf of the sand company.

The CHAIRMAN. Well, the mere fact that he had used the money for the sand and gravel company would not make him think he would not have to repay the money, would it?

Mr. SISLER. That is possible, on his part; he may have felt that I should be called on to pay it.

The CHAIRMAN. Well, how was Mr. Gray going to get out of this without being \$5,000 short, no matter who paid this note? You had his note for \$5,000, did you not?

Mr. SISLER. No; I did not have his note at the time, not at the time this note was negotiated. I think his note was away after; as I said, coincident with the sale of the company.

The CHAIRMAN. When was this, Mr. Sisler?

Mr. SISLER. I think that was the latter part of 1918.

The CHAIRMAN. November or December?

Mr. SISLER. December, I think.

The CHAIRMAN. In December, 1918, the company was sold to a Philadelphia concern?

Mr. SISLER. Philadelphia interests.

The CHAIRMAN. Philadelphia interests; who?

Mr. SISLER. Mr. N. Perry Edmonds, of Norcross & Edmonds, sand and gravel people; and Mr. Clarence Miller and a Mr. Lippincott; what his initials are I do not know.

The CHAIRMAN. Did you ever have any books of account for that company?

Mr. SISLER. Yes.

The CHAIRMAN. Was this carried on the books as an obligation?

Mr. SISLER. No. That note was negotiated by the individuals rather than by the company, although Mr. Sands at the time felt that he was helping the company because the money was to be used by the company.

The CHAIRMAN. Well, did Mr. Gray make a present of this \$5,000 to the company?

Mr. SISLER. Oh, no; Mr. Gray got a one-fourth interest in the company, for which he was supposed to put up his share of the requisite capital. He felt that that might—well, he promised at that time to put in what money he could, for which he would get common stock over and above the one-fourth interest.

The CHAIRMAN. Where is this note which you took from Mr. Gray?

Mr. SISLER. I think that is still in the Commercial Bank.

The CHAIRMAN. How long did that have to run?

Mr. SISLER. I think it is a demand note. I am not certain. I can get the note; I think it is still there.

The CHAIRMAN. Did you discount it?

Mr. SISLER. I did not.

The CHAIRMAN. Just deposited it there?

Mr. SISLER. Yes, sir.

The CHAIRMAN. Did you have any other transaction with Mr. Tucker K. Sands, outside of negotiating loans for the sand and gravel company and the foreign exchange syndicate?

Mr. SISLER. Other than personal notes; but they usually were made by me personally, and then deposited in my account, and I usually, in the same bank we had the sand and gravel company's account, I would just run the loans through my account, but they were not made directly by the company. I negotiated eight or ten loans, I imagine, personally.

The CHAIRMAN. For the use of the sand and gravel company?

Mr. SISLER. Yes.

The CHAIRMAN. What would you take from the sand and gravel company for this money that you personally borrowed?

Mr. SISLER. I had set up on the books a certain amount of preferred stock.

The CHAIRMAN. And as you turned it in, the stock would be issued to you?

Mr. SISLER. Well, we never issued the stock in blocks; it was practically set up on the books in that way, though.

The CHAIRMAN. Do you know a Mr. Fuller—Mr. B. Frank Fuller?

Mr. SISLER. I do not believe I have had that honor.

The CHAIRMAN. Would you know him if you saw him?

Mr. SISLER. I would not.

The CHAIRMAN. Did I ask you if you knew Mr. John Croner?

Mr. SISLER. You did.

The CHAIRMAN. Do you know him?

Mr. SISLER. I met Mr. Croner, as I state, at the Willard.

The CHAIRMAN. Oh, yes; you met him in the Willard lobby or alley?

Mr. SISLER. Yes.

The CHAIRMAN. You never saw him in Mr. Sands's apartment at the hotel, that you know of?

Mr. SISLER. As I stated, on the occasion I met him it may have been in Sands's apartment or may have been in the lobby.

The CHAIRMAN. Did he ever loan you any money?

Mr. SISLER. Mr. Croner?

The CHAIRMAN. Yes.

Mr. SISLER. No.

The CHAIRMAN. Did you ever seek to borrow any from him?

Mr. SISLER. I did not.

The CHAIRMAN. Mr. Kelley, have you any questions?

Mr. KELLEY. You live in the city of New York, do you not, Mr. Sisler?

Mr. SISLER. I reside in New Rochelle.

Mr. KELLEY. That is nearby here?

Mr. SISLER. 16 miles.

The CHAIRMAN. Are you going to stay in town to-night?

Mr. SISLER. I do not believe I could get a room in town to-night, so I contemplate going hom. I can not get any in this hotel. I do not have to go out until late, Mr. Kelley, if you want to ask me some questions.

Mr. KELLEY. I might have a few questions to ask in the morning. I have none to-night.

The CHAIRMAN. Will it be convenient for you to come back here in the morning, Mr. Sisler?

Mr. SISLER. It would; yes, sir; I can make it so.

The CHAIRMAN. You say you think you would prefer to interrogate him in the morning?

Mr. KELLEY. I think so.

The CHAIRMAN. Well, will you come back to-morrow morning, Mr. Sisler?

Mr. SISLER. Yes, sir.

The CHAIRMAN. We will excuse you now. Mr. New.

TESTIMONY OF MR. T. ED. NEW.

(The witness was duly sworn by the Chairman.)

The CHAIRMAN. Your name, Mr. New?

Mr. NEW. T. E. New.

The CHAIRMAN. What is your first name, please.

Mr. NEW. T. Ed. New.

The CHAIRMAN. Where do you reside, Mr. New?

Mr. NEW. Washington, D. C.

The CHAIRMAN. What part?

Mr. NEW. I live at the Chastleton Apartments.

The CHAIRMAN. Sixteenth Street?

Mr. NEW. Sixteenth and R.

The CHAIRMAN. Are you employed by the Shipping Board or Fleet Corporation?

Mr. NEW. I am.

The CHAIRMAN. In what capacity.

Mr. NEW. As assistant to the general comptroller.

The CHAIRMAN. That is your title, is it?

Mr. NEW. That is my title.

The CHAIRMAN. What particular part of the work do you perform?

Mr. NEW. Under my section comes the credit, the construction insurance, budget, and general miscellaneous correspondence.

The CHAIRMAN. To whom do you report?

Mr. NEW. To Mr. Tweedale.

The CHAIRMAN. How long have you held that position?

Mr. NEW. I have been with the Fleet Corporation since December, 1917.

The CHAIRMAN. Well, what position did you have when you went there in December, 1917?

Mr. NEW. Credit manager.

The CHAIRMAN. So you have had this position since December, 1917?

Mr. NEW. My title has changed since that time.

The CHAIRMAN. Well, I mean this work.

Mr. NEW. Yes.

The CHAIRMAN. You have done the same work?

Mr. NEW. Yes.

The CHAIRMAN. With different titles?

Mr. NEW. Yes.

The CHAIRMAN. How long were you known as credit manager?

Mr. NEW. Probably until June, 1918. Then a new credit manager was appointed. I was made assistant comptroller. The credit department still came under my direction.

The CHAIRMAN. Who was the new credit manager.

Mr. NEW. Mr. R. F. Atkins.

The CHAIRMAN. Did you have occasion at one time to make an investigation of the Downey Shipbuilding Corporation or the Providence Engineering Corporation?

Mr. NEW. I did of the Providence Engineering Corporation; not of the Downey Shipbuilding Corporation.

The CHAIRMAN. When was this brought to your attention? And by whom?

Mr. NEW. It was brought to my attention in February, the early part of February, by a memorandum from the Contract Division, saying that the Providence Engineering Corporation had a proposal in for the building of certain tugs.

The CHAIRMAN. You say a memorandum. That was a between-office memorandum?

Mr. NEW. Interoffice memorandum; yes, sir.

The CHAIRMAN. And what did you do, Mr. New?

Mr. NEW. I caused an investigation to be made of the Providence Engineering Corporation.

The CHAIRMAN. Were you told what the contract contemplated?

Mr. NEW. Yes.

The CHAIRMAN. The amount of it, and so forth?

Mr. NEW. Yes.

The CHAIRMAN. Was that contained in the memorandum?

Mr. NEW. It was.

The CHAIRMAN. Who was in charge of the contract division that brought that to your attention?

Mr. NEW. I think Mr. Underwood was the manager at the time. By referring to this I can tell [indicating file].

The CHAIRMAN. Yes; you may refer to anything you have there for the purpose of refreshing your recollection.

Mr. NEW. The first information I had was from a memorandum of the contract division, signed by G. S. Radford, contract manager.

The CHAIRMAN. Is that a memorandum or a telegram?

Mr. NEW. It is a memorandum, dated February 11, 1918.

The CHAIRMAN. Was he in Washington then?

Mr. NEW. He was.

The CHAIRMAN. Can you read what that memorandum says? Is it a brief memorandum?

Mr. NEW. Yes; very brief.

Memorandum for the auditing division.

Subject: Providence Engineering Corporation, financial statement.

The corporation is in receipt of a proposal from the above-named company for the construction of six seagoing steel tugs at a price of \$270,000 each. Please advise me as to the financial standing of the above firm, with reference to the advisability of entering into a contract with them.

The CHAIRMAN. Signed G. S. Radford?

Mr. NEW. Signed G. S. Radford, manager, contract division.

The CHAIRMAN. And what did you say the date of that is, Mr. New?

Mr. NEW. February 11, 1918.

The CHAIRMAN. Did you personally make an investigation of this Providence Engineering Corporation?

Mr. NEW. I personally caused an investigation to be made; yes.

The CHAIRMAN. What did you ascertain?

Mr. NEW. Do you mean what I got in the way of information on this?

The CHAIRMAN. Yes, sir: on this company, as a result of this memorandum and the investigation.

Mr. NEW. I got reports from the mercantile agencies, both Bradstreet's and Dun's, and then I got our district auditor, who was located at Boston, to give us a financial report on that company.

The CHAIRMAN. Well, what did you find?

Mr. NEW. I found that the company was very weak financially, had very little working capital; that from the report of the auditor they had no plant except one that was rented—that is, no plant in their own name—and that their working capital was very small, and that over a period of a short time prior to that, when they were making shells, I believe, for some foreign Government, they were operating at a deficit of something less than \$10,000.

The CHAIRMAN. Were all the reports that you received about this concern unfavorable?

Mr. NEW. I got no unfavorable reports, except that they were weak financially.

The CHAIRMAN. Well, did you get any other reports besides financial reports?

Mr. NEW. No.

The CHAIRMAN. Did you get a report from anybody there who said they had examined the plant and the organization and personnel, and found them to be in good shape, competent and capable of performing the contract?

Mr. NEW. The duty of determining the advisability, or the plant location and physical ability to carry out a contract, was up to another department. We interchanged communications regarding those things, and it was determined at that time that they had no shipbuilding plant.

The CHAIRMAN. By this other department it was determined?

Mr. NEW. Yes; and also by my conversation with Mr. Hussey, who was president of the Providence Engineering Corporation.

The CHAIRMAN. Well, they got the contract, did they not?

Mr. NEW. They did.

The CHAIRMAN. And they built the tugs?

Mr. NEW. They did.

The CHAIRMAN. Where?

Mr. NEW. I understand at Kyle & Purdy's plant the hulls were built; the Providence Engineering Corporation built the machinery.

The CHAIRMAN. Where is Kyle & Purdy's plant?

Mr. NEW. Somewhere on Long Island, I think.

The CHAIRMAN. Did you ascertain whether or not Mr. Wallace Downey was interested in this concern?

Mr. NEW. I knew Mr. Wallace Downey was interested in the concern.

The CHAIRMAN. To what extent?

Mr. NEW. Well, to the extent that he had advanced them a certain amount of capital—a certain amount of money.

The CHAIRMAN. Do you know how much?

Mr. NEW. Yes; somewhere in the neighborhood of \$45,000 at the time that this report was made.

The CHAIRMAN. To whom did you make your report as to the financial weakness of this concern?

Mr. NEW. Under date of February 26 I wrote a memorandum to the Contract Division, attention of Mr. Radford.

The CHAIRMAN. Is it a very lengthy communication?

Mr. NEW. Two pages.

The CHAIRMAN. Well, what is the substance of it?

Mr. NEW. The substance of it is that we found the Providence Engineering Corporation weak financially, and that they had prac-

tically no working capital to finance the contract, and that the credit department would not undertake to approve their financial standing.

The CHAIRMAN. Did you make any subsequent investigation of them?

Mr. NEW. Yes.

The CHAIRMAN. How did that come about?

Mr. NEW. It came about in this way: That at that time, in fact from the time that this proposal was first brought to our attention, the representative, Mr. Hussey, of the Providence Engineering Corporation, came to our office quite a number of times to discuss the matter, and to ask what could be done to obtain the contract, in the way of strengthening his financial condition.

The CHAIRMAN. He discussed it with you personally?

Mr. NEW. Quite a number of times; yes. I also think that on one or more occasions he discussed it jointly with Mr. Bender and myself.

The CHAIRMAN. Mr. Bender was the auditor?

Mr. NEW. The general auditor.

The CHAIRMAN. Well, what took place? You made a further investigation?

Mr. NEW. During the course of these conversations we explained to Mr. Hussey that our investigation showed his company to be weak, and the report was to the effect that he had no banking connections, with which to procure capital, and we asked to make some arrangement to show more working capital in his company. He told me that he was arranging for working capital with a local bank.

The CHAIRMAN. Yes. What else took place? What followed that, after he told you that?

Mr. NEW. It came about that he did arrange for working capital with the Commercial National Bank of Washington.

The CHAIRMAN. Then who arranged for it?

Mr. NEW. Mr. Hussey.

The CHAIRMAN. Mr. Hussey arranged for it?

Mr. NEW. Mr. Hussey.

The CHAIRMAN. How much?

Mr. NEW. \$125,000 was the ultimate amount.

The CHAIRMAN. How did you satisfy yourself that he had made that arrangement?

Mr. NEW. I asked Mr. Sands to show that this arrangement had been made. About this time was the first time I ever met Mr. Cranor, whose name has been mentioned here to-day. He came down to my office—Mr. Sands having told me this before—that he had arranged this credit—came down to my office and told me that Mr. Sands had agreed to furnish the Providence Engineering Corporation this credit, and asked me to call Mr. Sands on the phone, which I did. Mr. Sands said that he had arranged for this credit, and would send us a letter confirming that statement.

The CHAIRMAN. Did he send you a letter?

Mr. NEW. He did.

The CHAIRMAN. Have you got the letter there?

Mr. NEW. I have.

The CHAIRMAN. Can you read it?

Mr. NEW. May I say that Mr. Sands sent me a letter that I did not accept?

The CHAIRMAN. Yes. This is the letter you are going to read now?

Mr. NEW. No; I have not the letter that I did not accept.

The CHAIRMAN. What did you do with it?

Mr. NEW. It was returned to Mr. Sands.

The CHAIRMAN. Why did you not accept it?

Mr. NEW. Because it showed that the credit extended was by Mr. Sands, and not by the Commercial National Bank. Our understanding at all times was that the credit was to be extended by the Commercial National Bank, and that is who we wanted to extend the credit to the contractor.

The CHAIRMAN. No then, Mr. New, did you get this letter which you would not accept, prior to Mr. Cranor coming to your office and asking you to call Mr. Sands up on the telephone?

Mr. NEW. I think not, sir. I think that it was after that; I think possibly the same afternoon.

The CHAIRMAN. You got this letter, which you would not accept, after you had asked Mr. Sands to send you a letter telling you that the credit had been arranged?

Mr. NEW. Yes, sir.

The CHAIRMAN. Now, do you remember the date that you got that letter?

Mr. NEW. It was evidently either the 14th or 15th of March. It was either the same day that I got this letter or the day before I got this letter.

The CHAIRMAN. Do you know the date the contract was signed?

Mr. NEW. Yes; I know the date of the contract; I do not know the date it was signed.

The CHAIRMAN. What is the date of the contract?

Mr. NEW. My recollection is March 14.

The CHAIRMAN. After you got the letter which you would not accept, did you talk with Mr. Sands?

Mr. NEW. No.

The CHAIRMAN. With whom did you talk?

Mr. NEW. I talked with a representative of the Providence Engineering Corporation, either Mr. Hussey or Mr. Cranor, in my office. They were there on this business.

The CHAIRMAN. Did you tell them you had received this letter from Mr. Sands, which was unsatisfactory?

Mr. NEW. I did.

The CHAIRMAN. Did you ask them to arrange about another letter?

Mr. NEW. I did.

The CHAIRMAN. And then did you subsequently get the other letter?

Mr. NEW. When I told them that I would require another letter, and not accept Mr. Sands's guarantee in a personal capacity, they asked me what kind of a letter I would accept; and I dictated a jotting on a plain piece of paper and had it written off on the typewriter, of which this is practically a copy, this letter of March 15.

The CHAIRMAN. Will you read the letter of March 15?

Mr. NEW (reading):

WASHINGTON, D. C., March 15, 1918.

CREDIT MANAGER, EMERGENCY FLEET CORPORATION.

Mr. KELLEY. Excuse me, Mr. Chairman; is this the first letter?

Mr. NEW. This is the second letter. The first letter was returned to Mr. Sands. [Reading:]

This bank has entered into an agreement with the Providence Engineering Corporation, Providence, R. I., by which the bank agrees to furnish the Providence Engineering Corporation a line of credit up to \$125,000, to be used as working capital in connection with their pending contract covering the construction of 10 tugboats for the Emergency Fleet Corporation.

It is understood that this line of credit is to be available to the Providence Engineering Corporation during the entire life of the pending contract for tug construction referred to above.

Yours, truly,

T. K. SANDS, *Vice President.*

The CHAIRMAN. How did you return the letter which you would not accept?

Mr. NEW. I am not sure on that point, whether a representative of the Providence Engineering Corporation took that to Mr. Sands, or whether it was mailed to him. I am rather under the impression that it was taken by one of the representatives of the Providence Engineering Corporation.

The CHAIRMAN. Mr. Hussey or Mr. Cranor?

Mr. NEW. Yes.

The CHAIRMAN. After you got this letter which you have just read, did you make a subsequent report to the contract division?

Mr. NEW. Under date of March 9, which was prior to the date of this letter from Mr. Sands, I had written to the contract division a memorandum, which I will read:

Mr. William E. Hussey, general manager and vice president of the above company, advises us that he has arranged with the Commercial National Bank of this city to furnish the Providence Engineering Corporation with a working capital of \$150,000, to be available during the life of the pending contract with this corporation for the construction of 10 tugs.

He also advises that his company will furnish a performance bond amounting to 10 per cent of the face of the contract.

The Commercial National Bank is to furnish us a letter through Mr. Hussey, confirming this agreement for working capital outlined above, and we have advised Mr. Hussey that upon receipt of this information and the performance bond we will approve the contract from the financial standpoint.

This was under date of March 9, 1918. We were having daily telephone conversations between my office and the contract division as to what was the result of the investigation, and the position of our department about classing the contract. After receipt of the letter of March 15 from Mr. Sands I phoned the contract division advising that I had received that letter guaranteeing a working capital of \$125,000.

The CHAIRMAN. Well, the information you received from Mr. Hussey was to the effect that the guaranty would be \$150,000, and the letter you received from Mr. Sands only established a credit up to \$125,000.

Mr. NEW. Yes; but the question had been discussed between that time, and it had been agreed that we were going to accept the \$125,000.

The CHAIRMAN. Did you get any telegram from Mr. Radford asking haste in this matter, or inquiring about it?

Mr. NEW. Mr. Radford would not have sent me a telegram, because we were both located in the same city.

The CHAIRMAN. Did you get a telegram from anybody in connection with the matter?

Mr. NEW. I got a telegram from the Globe Indemnity Co. under date of March 23, 1918, to the effect that the bonds had been issued.

The CHAIRMAN. How much was that bond, do you know?

Mr. NEW. Yes, sir; \$285,000.

The CHAIRMAN. Ten per cent?

Mr. NEW. Ten per cent of the gross contract price.

The CHAIRMAN. Do you know how it happened that the contract was made for \$285,000 each, when the first information you received was that it was to be for \$270,000?

Mr. NEW. I do not, sir.

The CHAIRMAN. And do you know how it happened that the number of tugs was increased from 7 at \$270,000 to 10 at \$285,000?

Mr. NEW. I do not, sir.

The CHAIRMAN. You know nothing about that?

Mr. NEW. That was a contract division matter.

The CHAIRMAN. Do you know anything about anybody receiving a commission or a payment for establishing this credit?

Mr. NEW. I know nothing about that, and never heard of that until I read it in the newspapers since your committee has been in session.

The CHAIRMAN. Did you ever have any conversation with Mr. Sands about this matter?

Mr. NEW. I did not, except over the phone at the time I mentioned.

The CHAIRMAN. Did you ever see any report from anybody with reference to this plant, outside of your own division, a report furnished by any other division?

Mr. NEW. Yes.

The CHAIRMAN. Have you a copy of it?

Mr. NEW. No.

The CHAIRMAN. When did you see it?

Mr. NEW. About the time this was being negotiated.

The CHAIRMAN. About this line of credit?

Mr. NEW. May I change that a little—I do not know that I saw an actual written report. I had information from other divisions that the tugs were to be built at Kyle & Purdy's plant, and that the engines were to be built at the Providence Engineering Corporation.

The CHAIRMAN. Kyle & Purdy's plant is at City Island, is it not?

Mr. NEW. I think so.

The CHAIRMAN. And the Providence Engineering plant was where?

Mr. NEW. At Providence.

The CHAIRMAN. Rhode Island?

Mr. NEW. Rhode Island.

The CHAIRMAN. They did have a plant their sufficient to construct engines, did they?

Mr. NEW. After they made certain plant improvements; they had not, to my knowledge, constructed engines before.

The CHAIRMAN. How does this line of credit which you insisited upon before you favorably reported on their financial condition compare with other lines of credit required on the part of other persons doing business with the Fleet Corporation?

Mr. NEW. You ask how does it compare?

The CHAIRMAN. Yes, sir; in amount.

Mr. NEW. Why, where concerns put in propositions for the building of ships, an investigation was made as to their financial resources, and in event that they did not show sufficient working capital we invariably tried to make them obtain same.

The CHAIRMAN. That is how it compared?

Mr. NEW. Yes.

The CHAIRMAN. Well, Mr. New, while you were in that position, did you ever have any corporation or shipbuilding company, or any other company, who were seeking a contract with the Shipping Board or the Fleet Corporation, upon whom you had reported that they were financially weak?

Mr. NEW. If I have any company like that and did report their condition?

The CHAIRMAN. Outside of this one?

Mr. NEW. Yes, sir; quite a number of them.

The CHAIRMAN. Did they subsequently make arrangements for financial credit?

Mr. NEW. Where the contract was let—yes.

The CHAIRMAN. They would make the arrangements before the contract would be let?

Mr. NEW. Yes, sir; some of them.

The CHAIRMAN. In those instances, how did the line of credit which they established to improve their financial condition compare with the line of credit that the Providence Engineering Co. established, which you approved?

Mr. NEW. I do not know just how to answer that.

The CHAIRMAN. Well, was this the usual credit which you required before you would approve a recommendation for a contract to be let, about 10 per cent; that is to say, \$125,000 on a \$2,850,000 contract—was that the usual requirement as to credit?

Mr. NEW. There was no fixed percentage that was asked; it was altogether according to what their financial statements showed. When an investigation was made a report was given us. There was no fixed percentage.

The CHAIRMAN. What was their financial condition at the time that you reported that they were financially weak; how much money did they have on hand, how much did they owe, what was their balance, and just what was their condition?

Mr. NEW. Taking it from the report of our district auditor?

The CHAIRMAN. Yes, sir.

Mr. NEW. In the letter that I wrote to the contract division, under date of February 26, which I will now ask you to let me read into the record?

The CHAIRMAN. Yes, sir. Will you read it slowly so that the stenographer can get it?

Mr. NEW. I will. (Reading.)

FEBRUARY 26, 1918.

Memorandum to contract division: Attention of Mr. Radford, Providence Engineering Co., Providence, R. I. Financial standing.

That was the caption of it.

In accordance with your memorandum of the 11 instant, we have caused to be made an investigation of the affairs of the Providence Engineering Company.

From the information we have assembled we can not undertake to approve the financial standing of this company. Our opinion is based upon the following facts:

Their balance sheet as of January 31, 1918, the same having been verified by our district auditor, shows:

Assets:

Cash.....	\$8,490.14
Accounts receivable.....	7,617.25
Inventories.....	18,390.00

Total	34,498.38
-------------	-----------

Liabilities:

Capital stock	300.00
Accounts payable	44,172.92

Total	44,472.92
-------------	-----------

Deficit.....	9,974.54
--------------	----------

Of the above liabilities \$41,460.51 is due to Mr. Wallace Downey, whom we understand is to be paid by the capital stock of the Providence Engineering Co.

We understand that the Providence Engineering Co. was promoted by Mr. Wallace Downey, of the Downey Shipbuilding Co., and was organized in December, 1916, with an authorized capital of \$500,000, of which \$300 at par value has been issued at the time of our investigation. We understand that during the current months the title to the plant property, which had formerly been leased from Mr. Wallace Downey at an annual rental of \$12,200, was passed to the Providence Engineering Co., and that Mr. Downey is to receive capital stock in payment of this property. Our district auditor states that the assessed value of this plant on June 30, 1917, was \$172,940, while from the Providence Engineering Co. we learn that the assessed value as of February, 1918, was \$431,565, and against this property a mortgage amounting to \$150,000 is of record.

From an unauthentic source we have heard that if the pending contract is granted it is the purpose of the Providence Engineering Co. to have the hulls built by Kyle & Purdy, the Providence Engineering Co. only furnishing engines and machinery in connection with the contract.

As the Providence Engineering Co. is comparatively a new company, we understand that no banking credit has been established, and we have no information as to how they will obtain any financial assistance beyond our contract payments.

CREDIT MANAGER.

The CHAIRMAN. You thought, after talking with Mr. Hussey and Mr. Cranor and receiving these reports from your district auditor in Boston, that if they establish any credit of \$125,000 that that would make them financially strong?

Mr. NEW. I thought it would increase their working capital.

The CHAIRMAN. To the extent of \$125,000.

Mr. NEW. Yes.

The CHAIRMAN. And that with that increase in capital you felt that they would be financially able to carry out the contract involving the construction of 10 tugs, the total contract price of which was \$2,850,000.

Mr. NEW. Yes; considering the fact that they were to be paid money as the ship construction progressed, under the terms of the contract.

The CHAIRMAN. They were to be paid \$2,850,000 before any construction progressed, were they not?

Mr. NEW. Within 30 days after the signing of the contract they were to be paid that?

The CHAIRMAN. Yes, before any construction progressed.

Mr. NEW. Before it was necessary for them to——

The CHAIRMAN. Yes, sir. Did you ever have any other case just similar to this where you made a like report?

Mr. NEW. What do you mean, please, Mr. Walsh, by a "like report?"

The CHAIRMAN. Did you ever have any case similar to this where they were financially weak, the financial statement showed small assets, great liabilities, and you required the establishment of financial credit in some similar sum?

Mr. NEW. Yes, sir.

The CHAIRMAN. Many others?

Mr. NEW. Quite a few.

The CHAIRMAN. When you learned that Mr. Wallace Downey was interested in this concern and would probably be very heavily interested in the concern, did you make any investigation of his financial standing or rating?

Mr. NEW. I knew that we had a contract with the Downey Shipbuilding Corporation, of which Mr. Downey was the leading spirit.

The CHAIRMAN. Yes. But this was an individual interest of Mr. Downey's in the Providence company, was it not?

Mr. NEW. Yes.

The CHAIRMAN. It was not a subsidiary of the Downey Shipbuilding?

Mr. NEW. In no way, as I understand it.

The CHAIRMAN. Did you make any investigation of his financial standing?

Mr. NEW. No.

The CHAIRMAN. And that is the only investigation you made of the Providence Engineering Co., on which you at first based your report that they were financially weak?

Mr. NEW. Yes.

The CHAIRMAN. And afterwards upon being informed that this credit had been established, you recommended that they were in a position financially to carry out the contract?

Mr. NEW. We had in the meantime gotten reports on Kyle & Purdy, who were indirectly into the contract; in other words, would be subcontractors for the Providence Engineering Corporation.

The CHAIRMAN. Is that a Downey corporation?

Mr. NEW. Not to my knowledge.

The CHAIRMAN. Did you find any interest of Mr. Wallace Downey in the Kyle & Purdy plant?

Mr. NEW. I think not.

The CHAIRMAN. Or any of the officers of his concern?

Mr. NEW. Not to my knowledge; I can not answer that positively, but not to my knowledge.

The CHAIRMAN. You say that you did not know that this arrangement which was to establish this credit involved the payment of any commission to anybody until after it was brought out in the hearings of this committee?

Mr. NEW. I did not.

The CHAIRMAN. Did you keep track of the progress of payments?

Mr. NEW. No, sir.

The CHAIRMAN. That is not a part of your work?

Mr. NEW. That was not a part of my functions. The payments were made through our Boston office at that time, later through the New York office, when the Boston office was closed.

The CHAIRMAN. Was there any request made of you through a memorandum, letter, telegram, telephone conversation, or otherwise for you to make a further investigation as to the financial standing of this company during the progress of the contract.

Mr. NEW. During the progress of the contract?

The CHAIRMAN. Yes.

Mr. NEW. I am not sure, but I think there was.

The CHAIRMAN. Have you got the report of that here?

Mr. NEW. I have two reports here—two audit reports of the Providence Engineering Co.

The CHAIRMAN. What do they show as to its financial condition?

Mr. NEW. This was after the contract was let?

The CHAIRMAN. Yes, sir; during the work under the contract.

Mr. NEW. I am not familiar with what they do show at the most. I have not gone into them for quite some while.

The CHAIRMAN. Did you ask for any further credit to be established?

Mr. NEW. No.

The CHAIRMAN. As a result of these auditors' reports?

Mr. NEW. No.

The CHAIRMAN. Do you know whether any arrangement was later made for strengthening their line of credit?

Mr. NEW. Not to my knowledge.

The CHAIRMAN. Do you know whether other credit was transferred from that bank to some other banking institution?

Mr. NEW. Not to my knowledge.

The CHAIRMAN. You were not called upon to look into that matter of passing upon whether new credit should be established elsewhere?

Mr. NEW. Only in event that they had asked for some further financing outside of the terms of their contract, then I might have been called upon to do that.

The CHAIRMAN. Now, do you recall whether they were asked for some financing outside of the terms of their contract?

Mr. NEW. I think they did, although I can not recall at this moment whether that is true or not.

The CHAIRMAN. If they did, you made a further investigation?

Mr. NEW. I would have probably done so; yes.

The CHAIRMAN. Do you know from any investigations you have made of the financial standing of any concern which was seeking to secure a contract with the Shipping Board, or which had secured a contract with the Shipping Board, and was performing work under that contract—whether it was customary for such a concern to pay commissions to anybody for the purpose of assisting in establishing credit?

Mr. NEW. It was not the custom, to my knowledge, and had a case come to my attention it would have been reported to the proper authorities.

The CHAIRMAN. Who would you consider the proper authorities to report it to, Mr. New?

Mr. NEW. At the time of the letting of this contract, I would have considered Mr. Bender, the general auditor, to whom I reported.

The CHAIRMAN. You never heard of anything of that sort in connection with this transaction?

Mr. NEW. No, sir.

The CHAIRMAN. Did Mr. Cranor or Mr. Hussey tell you that Mr. Sands was to be paid anything, or that the bank was to be paid anything for certifying this credit?

Mr. NEW. They did not.

The CHAIRMAN. Have you seen any account or audit of the affairs of this corporation at any time which indicate to you that they did pay some money for establishing this credit?

Mr. NEW. I have seen an item which was referred to in the report that you gave Mr. Tweedale this afternoon.

The CHAIRMAN. You have seen an item?

Mr. NEW. Yes.

The CHAIRMAN. Does that indicate to you that somebody received something for establishing that credit?

Mr. NEW. It indicates to me that they paid—may I look at it?

The CHAIRMAN. Certainly; refresh your recollection by referring to anything you have there.

Mr. NEW (referring to documents). This [indicating] is a copy of the same report, I understand. The item reads "partial payment for furnishing and guaranteeing financial credit and working capital."

The CHAIRMAN. How much?

Mr. NEW. \$10,000.

The CHAIRMAN. That which you have just read is in a report of an auditor?

Mr. NEW. Yes, sir.

The CHAIRMAN. By whom was the report signed?

Mr. NEW. By Mr. Veck; I think senior resident auditor is his title.

The CHAIRMAN. Senior resident auditor where?

Mr. NEW. I assume that he was resident auditor at the Providence Engineering Corporation's plant, or district office representative here.

The CHAIRMAN. Did Mr. Bolling ever talk to you about this particular corporation?

Mr. NEW. Do you mean at the time that this was let?

The CHAIRMAN. At any time.

Mr. NEW. He had never talked to me about that until reports came out in the papers in which he was implicated.

The CHAIRMAN. Until these hearings were in progress?

Mr. NEW. Yes; and the reports came out in the newspapers in which his name was mentioned.

The CHAIRMAN. That is just within a week or 10 days.

Mr. NEW. It has been talked about since that time.

The CHAIRMAN. But he never spoke to you about it at the time the negotiations were in progress?

Mr. NEW. I did not know Mr. Bolling at the time negotiations were in progress.

The CHAIRMAN. Has Mr. Sisler ever spoken to you about this matter?

Mr. NEW. I do not think that I have ever spoken to Mr. Sisler in my life, except just to say "How do you do." I do not think that really, as a matter of fact, I have ever been introduced to Mr. Sisler,

but we knew each other by reason of being connected with the same corporation.

The CHAIRMAN. You have become acquainted from seeing each other frequently in the offices down there?

Mr. NEW. Yes, sir.

The CHAIRMAN. Has anybody else employed by the Fleet Corporation asked you to report favorably or sought to get you to make a favorable report on this matter in order that this contract might be awarded?

Mr. NEW. No, sir; the contract division at the time the investigations were going on, were asking me to make a report; so that some action could be taken on the contract. That was only in the course of business, and in the hurrying to completion either one way or the other, as I took it.

The CHAIRMAN. I understand you. But what I meant was, did anybody outside of the contract division or inside of the contract division seek to influence you to make a favorable report on this particular matter?

Mr. NEW. Not at all; not at all, sir.

The CHAIRMAN. Did you make any investigation, Mr. New, to see how this credit was actually arranged in the Commercial National Bank after the receipt of this letter from Mr. Sands?

Mr. NEW. No, sir.

The CHAIRMAN. Do you usually accept letters from officers of the bank practically underwriting or guaranteeing contracts up to a certain amount, without a vote of the board of directors attached to the communication?

Mr. NEW. I do not recall but several occasions where we have had banks to guarantee a contractor credit. In those cases I did. I accepted the letter from the bank as a guarantee by the bank, and did not get a resolution of the board of trustees or board of directors.

The CHAIRMAN. You say you recall several cases in which you had a letter from an officer of the bank establishing a line of credit?

Mr. NEW. Yes, sir.

The CHAIRMAN. And you do not recall a single instance in which you secured a resolution of the board of directors?

Mr. NEW. No; I do not recall such an instance.

The CHAIRMAN. Are you satisfied that this letter, signed by the vice president of the bank, was adequate protection to the Fleet Corporation, without a vote of its board of directors?

Mr. NEW. Why, I am satisfied that the bank is obligated to that credit by this letter which we have in our possession; yes.

The CHAIRMAN. And that the vice president of the bank had authority to obligate his bank to that extent?

Mr. NEW. An officer of a corporation, according to my understanding—the corporation is responsible for his acts, within the scope of his authority.

The CHAIRMAN. Within the scope of his authority. Now, do you know whether this was within the “scope” of the vice president’s authority?

Mr. NEW. I accepted this as a letter of the bank, signed by the vice president.

The CHAIRMAN. Yes, sir. But did you know when you accepted it that it was within the “scope” of his authority?

Mr. NEW. I can not say that I did.

Mr. KELLEY. What is the exact name of the concern that received this contract?

Mr. NEW. The Providence Engineering Co. or Corporation.

Mr. KELLEY. Which is it?

Mr. NEW. Corporation.

Mr. KELLEY. Was there not a Providence Engineering Co. preceding the Providence Engineering Corporation?

Mr. NEW. If there was I do not recall ever having seen it.

Mr. KELLEY. Is it not possible that reports such as you have there were about the Providence Engineering Co., whereas you were dealing with the Providence Engineering Corporation?

Mr. NEW. No, sir.

Mr. KELLEY. It is not possible?

Mr. NEW. No, sir.

Mr. KELLEY. Suppose it should occur in looking into this that the Providence Engineering Corporation succeeded the Providence Engineering Co., a much stronger institution. Might you not be mistaken as to the company you were investigating?

Mr. NEW. I can conceive such a thing being possible, but not in this particular case.

Mr. KELLEY. You sent out to the Boston district for the report yourself?

Mr. NEW. Yes, sir.

Mr. KELLEY. Here is the telegram that Mr. Radford sent. You have not any record, I suppose, of inquiries that he made?

Mr. NEW. No; except as a matter of general information in the files. I do not know whether I have ever seen that telegram or whether I have not.

Mr. KELLEY. If you had any information about the standing of this company would you know about it?

Mr. NEW. It should have been submitted to me.

Mr. KELLEY. Why should he wire out at all about it?

Mr. NEW. You would have to ask Mr. Radford that.

Mr. KELLEY. I know, but I am talking about the policy in vogue at that time.

Mr. NEW. The responsibility for our establishing the financial standing of the bidder was up to the credit department.

Mr. KELLEY. Here is the telegram dated the 12th of February, 1918, signed by Mr. Radford, and sent from Washington, D. C., addressed to C. S. Bookwalter, 115 Broadway, New York. Who was Bookwalter?

Mr. NEW. Bookwalter was a representative of the Fleet Corporation. I think his title was district manager.

Mr. KELLEY. He had charge of all this great district?

Mr. NEW. Of the construction end of the proposition.

Mr. KELLEY. I am referring to page 2394 of the stenographic record:

Home office is in receipt of proposal from Providence Engineering Corporation, of Providence, R. I., covering construction of six ocean-going steel tugs, 150 feet in length, the hulls to be built at the Kyle & Purdy plant at City Island, N. Y., the engines in their own plant. Please investigate both these plants and report by wire of equipment, organization, etc., with recommendation as to their ability to carry out the proposed work.

RADFORD.

Now, the answer came, in substance, quoting from a paragraph which gives the gist of the answer [reading]:

The Providence Engineering Corporation is admirably situated and no doubt will be equipped to do the class of work that will be required if they receive the contract, and the writer believes that they will be in a position to make excellent deliveries, and that their tools and equipment is far above the average. The shipping facilities are excellent. They have, as before stated, a siding of the New Haven road, and there are three steamship lines running to New York which leaves their docks near this plant. There is no doubt in the mind of the writer that if they receive the contracts they will be able to give them prompt attention and that they will give satisfactory performance.

What would you have thought if you had had those reports at the time this was under consideration?

Mr. NEW. I presume that those are from a construction standpoint.

Mr. KELLEY. Well, if a corporation had a fine plant and a good organization and were admirably situated and had fine tools and were far above the average in equipment, it would not have been a great stretch, would it, for the Shipping Board to have supplied a little money for them to do business on, would it?

Mr. NEW. The contracts do provide the money.

Mr. KELLEY. Yes; you have done that in hundreds of cases, have you not?

Mr. NEW. Yes.

Mr. KELLEY. Why did you not do it in this case?

Mr. NEW. My information—and I think it can be borne out by your own investigations—is that the Providence Engineering Corporation had a plant at Providence which was equipped to manufacture engines and machinery, but had no shipbuilding plant. I got my information on the subject from the president and general manager of the Providence Engineering Corporation; and that it was the purpose to build the hulls at the Kyle & Purdy plant.

Mr. KELLEY. What was wrong about that?

Mr. NEW. Nothing at all, except that——

Mr. KELLEY (interposing). How did that injure the situation?

Mr. NEW. It would not injure it.

Mr. KELLEY. Why hold up their contract because of that fact?

Mr. NEW. They showed no working capital.

Mr. KELLEY. If they had a good plant——

Mr. NEW (interposing). They had to pay the Kyle & Purdy Co. for the progress as earned; it necessarily would have to be a sub-contract for the building of the hulls.

Mr. KELLEY. Now, Mr. New, when a company of this kind has fine equipment, and the report is that they make excellent deliveries—and Mr. Radford was so wired—do you know any reason why he should not have told you that it would be all right to go ahead with this contract?

Mr. NEW. I was simply investigating the financial condition of the company and, of course, their plant. Their plant site had to be with their financial condition.

Mr. KELLEY. You have approved of credit for a great many credits when they did not have any working capital to speak of; and not only that, but when they did not have any plant or equipment, that the Government was to advance the whole capital of the concern. That is no uncommon thing, is it?

Mr. NEW. Yes, that is rather an uncommon thing.

Mr. KELLEY. "Rather an uncommon thing"?

Mr. NEW. Yes.

Mr. KELLEY. You were in the credit department when Philip Sloan got his contract?

Mr. NEW. I was not, no, for which I am very glad to be able to say.

Mr. KELLEY. Were you in the credit department when the Clyde Co., out in California, got their contract?

Mr. NEW. The Clyde Co.?

Mr. KELLEY. That is not the exact name—Pacific Coast Shipbuilding Co. is the name.

Mr. NEW. Yes, sir; I think I was.

Mr. KELLEY. How much capital did they have?

Mr. NEW. I could not tell you that without refreshing my recollection.

Mr. KELLEY. They did not have a dollar.

Mr. NEW. They did not have a dollar.

Mr. KELLEY. They did not have a plant, did they?

Mr. NEW. I think it was a new company.

Mr. KELLEY. They did not have any organization?

Mr. NEW. I do not know.

Mr. KELLEY. The man at the head of it was a real estate man in San Francisco, was he not, with no experience and no credit in San Francisco; and he still got a contract, did he not, approved by your division?

Mr. NEW. I do not know that the contract was approved by my division.

Mr. KELLEY. It must have been. You had to approve all of them, did you not?

Mr. NEW. I did not approve every contract.

Mr. KELLEY. Some were let without your approval?

Mr. NEW. They were.

Mr. KELLEY. This might have been one of those.

Mr. NEW. This may have been one of those.

Mr. KELLEY. Where is Mr. Radford now, do you know?

Mr. NEW. I do not.

Mr. KELLEY. Do you know whether or not it was customary for banks to sometimes exact enormous commissions to establish credit to various concerns?

Mr. NEW. I have never heard of any such custom.

Mr. KELLEY. You do not know of any other case except this one, and that you have learned of recently?

Mr. NEW. Yes, sir.

Mr. KELLEY. You consider this an enormous commission, do you not?

Mr. NEW. For a \$100,000 credit?

Mr. KELLEY. For a \$100,000 credit.

Mr. NEW. Absolutely preposterous.

Mr. KELLEY. Absolutely preposterous?

Mr. NEW. Yes.

Mr. KELLEY. As soon as this contract was signed, how much did the Fleet Corporation, under its contract, turn over to this company?

Mr. NEW. The contract provided we were to pay them \$285,000 within 30 days from the signing of the contract, after they had put

up a bond, which bond was to guarantee that the funds so paid were to be spent only in labor and material for the prosecution of this contract and for the faithful—the bond covered the faithful performance of the contract.

Mr. KELLEY. If this company was willing to put up a bond, why did you put them to the further necessity of establishing a credit?

Mr. NEW. That bond did not protect us for anything except the proper application of the initial payment, and for them to properly perform the contract.

Mr. KELLEY. What more did you want?

Mr. NEW. We wanted them to have some working capital.

Mr. KELLEY. Do you know of any reason why they should not have been advanced some working capital by the Fleet Corporation?

Mr. NEW. No; I think of no reason why they should not.

Mr. KELLEY. No. But that was not done; and they had to go out and make this private arrangement by which they were to have \$125,000 credit, for which they paid \$40,000?

Mr. NEW. Yes, sir.

Mr. KELLEY. It has never come to your attention that anybody else of this same company in any other case was obliged to do the same thing?

Mr. NEW. Paid an enormous—it has never come to my attention that this company or any other company with whom I had dealings, paid a commission, you might say. I assume they obtained a line of credit; they all paid the usual discounts for money.

Mr. KELLEY. If you had advanced them \$100,000, or if you had simply given them the \$285,000 under their contract, they could have gone ahead and handled this all right?

Mr. NEW. I do not know whether they could or not, Mr. Kelley.

Mr. KELLEY. You furnished them the steel, did you not, under this contract?

Mr. NEW. The contract provided for that.

Mr. KELLEY. So they did not have to buy much material?

Mr. NEW. The Government furnished the material.

Mr. KELLEY. But you just stuck on the pay roll; would not furnish them a little working capital, although they had a good plant, well organized, fine shipping facilities, and everything all in good shape.

Mr. NEW. You say they had a fine plant?

Mr. KELLEY. I am just reading from the report.

Mr. NEW. I say, from my information, that the Providence Engineering Co. had no shipbuilding plant.

Mr. KELLEY. The contract division had information to the contrary—those who were to let the contract had information to the contrary.

Mr. NEW. What are the facts?

Mr. KELLEY. Well, what are the facts? Is not this report reliable from Mr. Bookwalter?

Mr. NEW. I do not know the report, and therefore can not give testimony on it.

Mr. KELLEY. Did you not ask Mr. Radford for all reports that he had in his division?

Mr. NEW. You mean in connection with this particular contract?

Mr. KELLEY. Yes.

Mr. NEW. I do not know that I did ask him for any particular information on this contract. He asked me for financial information.

Mr. KELLEY. Do you remember whether the desire on the part of the contract division was that this contract should be let or should not be let?

Mr. NEW. Whether it was the desire?

Mr. KELLEY. Yes; that it should be let or should not be.

Mr. NEW. I knew the contract division wanted to let contracts for tugs.

Mr. KELLEY. Yes; but did they want to let this contract?

Mr. NEW. I could not tell you.

Mr. KELLEY. In talking with you, did they discourage the O. K. of their credit, or did they not talk with you about it at all?

Mr. NEW. Oh, yes; they talked to me about it a number of times. They neither discouraged—they influenced me in no way at all that I can recall.

Mr. KELLEY. You do not know?

Mr. NEW. They offered no influence at all that I can recall. The contract division was anxious to let tug contracts at the time to reputable concerns.

Mr. KELLEY. And Mr. Radford had the information that this was such a concern and would not advance the little working capital, although after this credit had been arranged you were willing to advance them \$285,000 right away; that is the fact, is it not?

Mr. NEW. The usual terms of a lump-sum contract were 10 per cent within 30 days after the letting of the contract. This contract provided for those terms.

Mr. KELLEY. Do you know whether the Commercial Bank required these people to put this \$285,000 right into the Commercial Bank as a deposit?

Mr. NEW. I do not.

Mr. KELLEY. Would not that come under your jurisdiction to inquire just how they were going to handle these funds?

Mr. NEW. No; that is——

Mr. KELLEY (interposing). That would be under whose——

Mr. NEW (interposing). Under the terms of this contract, the money was paid to the contractor.

Mr. KELLEY. He could deposit it where he liked, so far as you are concerned?

Mr. NEW. Where he pleased, yes.

Mr. KELLEY. Was not that \$285,000 bond quite a large bond for a contract of this kind?

Mr. NEW. No; not where there was the initial advance.

Mr. KELLEY. Did you always require that?

Mr. NEW. "Always" would cover a good deal of territory in that question.

Mr. KELLEY. Yes and no. Did everybody have to put up such a bond as that where you advanced such money?

Mr. NEW. Ordinarily.

Mr. KELLEY. I know, but did everybody?

Mr. NEW. You can not expect me to answer that.

Mr. KELLEY. Yes, I can.

Mr. NEW. No; you can not.

Mr. KELLEY. Why?

Mr. NEW. Because I am not prepared to answer it.

Mr. KELLEY. But so far as you know, did everybody who got an advance payment put up a bond for the faithful handling of the money?

Mr. NEW. Where it was not put into a controlled account in the name of the Emergency Fleet Corporation, every case that I know of a bond was required.

Mr. KELLEY. Did Philip Sloane give a bond?

Mr. NEW. I could not tell you.

Mr. KELLEY. Did this Pacific Coast Shipbuilding Corporation give a bond?

Mr. NEW. I do not know.

Mr. KELLEY. Did Skinner & Eddy give a bond?

Mr. NEW. I do not know.

Mr. KELLEY. You would know about Skinner & Eddy, surely. They built 85 ships.

Mr. NEW. Yes.

Mr. KELLEY. Did they not give a bond?

Mr. NEW. I do not know. I could tell you by referring to my records, but I did not come here prepared to testify on Skinner & Eddy or the Pacific Coast Shipbuilding Co., and therefore—and I passed on quite a number of contracts in the course of my duties.

Mr. KELLEY. Did you approve of the Skinner & Eddy contracts?

Mr. NEW. I do not think that the Skinner & Eddy contracts were ever submitted to my department for approval.

Mr. KELLEY. How did they get by you? Did the Shipping Board itself let these contracts without reference to you?

Mr. NEW. There were a great many higher officials in the Shipping Board—there were a great many high officials in the Shipping Board—

Mr. KELLEY. I am asking you, is that how it is done?

Mr. NEW. There were contracts that did not come into the credit department until after the contracts were signed.

The CHAIRMAN. Will you look at this financial statement that you read into the record, Mr. New, once more, please, and see if this is headed "Providence Engineering Corporation" or "Providence Engineering Co."?

Mr. NEW. You mean the one our district auditor rendered?

The CHAIRMAN. At Boston; yes.

Mr. NEW. All right [examining report]. I would be glad to furnish you a copy of this; I have a signed copy and an unsigned copy.

The CHAIRMAN. I think we would like to have a copy, although you have read it into the record.

Mr. NEW. I read into the record a résumé that I made of this.

The CHAIRMAN. Oh, yes.

Mr. NEW. But the figures are here and substantiate the figures which I read.

The CHAIRMAN. The résumé that you read, was that headed "Providence Engineering Corporation"?

Mr. NEW. Providence Engineering Co.

The CHAIRMAN. Company?

Mr. NEW. Yes. The report from the district auditor is headed "Providence Engineering Corporation."

The CHAIRMAN. Corporation, and this résumé is taken from his report.

Mr. NEW. It is.

The CHAIRMAN. And you say you can furnish us with a copy of his report, which is unsigned?

Mr. NEW. Yes, sir.

Mr. KELLEY. If there were any other corporations, Mr. New, doing business with the Shipping Board, which had to pay such fees as this for credit, would not your department, in checking through, discover that?

Mr. NEW. Not necessarily in a contract of this nature. Do you want me to explain what I mean by "this nature"?

Mr. KELLEY. Why, yes; I would like to know all about it.

Mr. NEW. It is a lump-sum contract that provides for the payment by the Fleet Corporation to the contractor a certain percentage of the cost of hulls—for the cost of ships—as the work progresses, so much when the contract was signed, and so much when a certain physical stage of completion was reached. When those payments were made they were payments to the contractor, and the money was the contractor's money, and as long as they lived within the terms of that contract there was no occasion for us to determine that.

Mr. KELLEY. Let me put the question this way: If any corporations did have to pay any such exorbitant commission as this, they probably would be in great distress, would they not?

Mr. NEW. Yes.

Mr. KELLEY. Not only when they got the relief, but in their final accounting with you, would they not?

Mr. NEW. I should say if they were accustomed to paying—allowing themselves to be gouged in any such manner as this—that they could not build ships for the price named in the contract, and therefore before the contract was completed they would be in financial trouble.

Mr. KELLEY. Were these ships completed under this contract?

Mr. NEW. I understand that they were.

Mr. KELLEY. Have you settlement with this company?

Mr. NEW. I understand that they have been paid all contract payments.

Mr. KELLEY. They must have some claims, have they not?

Mr. NEW. I think—I am not sure on this point—but I think they have some claims for changes and extras in the ship construction.

Mr. KELLEY. Are there any corporations—either this one or any other—that have made a showing in their final settlements which would indicate that they had paid large commissions to banks for establishing credit, and that that information has come to you in that manner.

Mr. NEW. No such information has come to me in that manner.

Mr. KELLEY. Well, in any manner.

Mr. NEW. No; in no manner have I got any information of exorbitant charges by a bank.

Mr. KELLEY. Are you not the assistant comptroller?

Mr. NEW. I am.

Mr. KELLEY. I should think you would know. You know all that your chief knows, do you not? [Laughter.]

Mr. NEW. I do not aspire to that. [Laughter.]

Mr. KELLEY. I know that is quite a contract, but still I am pretty well satisfied that you are in touch with things up there pretty well, and that if anything happened to the chief, you would know where to find things pretty well.

Now, has it come to your knowledge in any way, as assistant comptroller, that any corporation, this one or any other, has paid exorbitant commission to banks?

Mr. NEW. It has not.

Mr. KELLEY. Mr. Cranor tried to get this contract through, didn't he—tried to get the approval of it with you?

Mr. NEW. Mr. Cranor came to my office a few days before the contract was approved from a financial standpoint.

Mr. KELLEY. Just a few days?

Mr. NEW. Just a few days is my recollection of it, the first time I ever met him—I do not think I ever met him but twice during the process of these negotiations; I think he called on me one time before the day that he came to my office and asked me to call Mr. Sands with reference to this matter.

Mr. KELLEY. He was not very industrious, was he, in trying to get this contract approved?

Mr. NEW. You will have to ask Mr. Cranor that; I do not know. He may have been as busy as a bee; I do not know.

Mr. KELLEY. If he appeared there once——

Mr. NEW (interposing). Twice.

Mr. KELLEY. Twice?

Mr. NEW. Once and possibly twice.

Mr. KELLEY. And that right at the last?

Mr. NEW. Yes, sir.

Mr. KELLEY. To tell you that Mr. Sands would furnish the necessary credit?

Mr. NEW. Yes, sir.

Mr. KELLEY. And that is the only time he showed up there to get these contracts through?

Mr. NEW. Those are the only two times that he showed up in my office, to my recollection.

Mr. KELLEY. Did you hear Mr. Sands's testimony the other day here, that Cranor was to get \$15,000 out of this \$40,000?

Mr. NEW. I did not hear the testimony; I read it in the newspapers. I was not here to hear the testimony.

Mr. KELLEY. But you are sure that he did not try to put this contract through until after or about the time that Sands wrote the letter, excepting that he appeared there once before?

Mr. NEW. No, sir; I am not sure what he may or may not have done. I am telling you what he did with reference to my department.

Mr. KELLEY. That is what I say, he was there once?

Mr. NEW. Yes; once or twice.

Mr. KELLEY. You were the one that was holding this contract up, were you not?

Mr. NEW. I did not approve the financial standing of the Providence Engineering Co. until I had received this letter from the Commercial National Bank.

Mr. KELLEY. That was the only thing that was necessary to get it through—the credit—and that you were holding up.

Mr. NEW. I am not sure on that point, whether or not there might have been objections from some other division for some other reason or not. I can not answer that question. But I make this statement: I was asked on February 11 to investigate the matter, and it was not approved until March 15.

Mr. KELLEY. Did it strike you at all as peculiar that a Washington bank with which these people had never done any business, that that bank should put up the credit and guarantee the credit of this company?

Mr. NEW. Not exceptionally.

Mr. KELLEY. Was that a very common thing to happen?

Mr. NEW. No; I can not say that——

Mr. KELLEY (interposing). For an engineering company away up in Providence, R. I., to go down to Washington among strangers to get credit. Would not that excite your suspicion?

Mr. NEW. I would not say that it was an ordinary procedure. I recall at the time that Mr. Hussey told me that he was going to get a line of credit at the Commercial National Bank. I asked him why.

Mr. KELLEY. Yes. What did he say?

Mr. NEW. He said that he had certain banking connections there that made it possible; and from my standpoint, if he could obtain this line of credit from the Commercial National Bank it was satisfactory to me from a financial standpoint.

Mr. KELLEY. Did he say Mr. Cranor, the financial agent of the company, was an old friend of Sands, and that he thought they could fix it up that way?

Mr. NEW. He did not.

Mr. KELLEY. Did he mention Sands at all in connection with the credit?

Mr. NEW. He did not.

Mr. KELLEY. Did you understand that Cranor was the one who negotiated the credit?

Mr. NEW. I did not; and I did not know Mr. Cranor until a few days before I finally approved it from a financial standpoint.

Mr. KELLEY. This bank did not really make any loan at all, did they, to this company?

Mr. NEW. They guaranteed to make a loan available to them during the life of the contract, whether——

Mr. KELLEY (interposing). The vice president of the bank did?

Mr. NEW. I considered that the bank did through its vice president.

Mr. KELLEY. But did the bank ever put this money where these people could use it?

Mr. NEW. I do not know.

Mr. KELLEY. If they did not, if they simply put it in the savings department, and fixed it so that it could not be checked against, then they practiced a deception upon the Shipping Board?

Mr. NEW. Positively.

Mr. KELLEY. In this report this \$10,000 note appears to have been paid out of Shipping Board money, does it not, Mr. New; that this amount which was a partial payment, the report recites, for establishing credit to the extent of \$10,000, was paid out of the Government's fund?

Mr. NEW. I can not see that that was the case.

Mr. KELLEY. Well, just tell me about that, so I will have that straight in my mind.

Mr. NEW. The contract was entered into with the Providence Engineering Co., by which after they had performed certain things under the contract, namely, the furnishing of a bond——

Mr. KELLEY (interposing). You were standing the expense of that, were you not?

Mr. NEW. We were not.

Mr. KELLEY. Is not that charged up in this Downey concern against the Government?

Mr. NEW. The cost of furnishing the bond——

Mr. KELLEY (interposing). How?

Mr. NEW. I do not know; I do not see that there is anything charged up against the Government.

Mr. KELLEY. What does that heading there "general expenses" mean—anything that is not included in overhead? Why did they not put that in the overhead expenses?

Mr. NEW. I should think it would belong in their overhead expense.

Mr. KELLEY. What is the effect of not putting it there; that is what I am getting at. It is put down there under the head of direct payment.

Mr. NEW. The \$10,000?

Mr. KELLEY. Yes.

Mr. NEW. I do not know what it means.

Mr. KELLEY. Well, then, I feel very much flattered here. I did not know either. [Laughter.] I will let you look at it now, and then tell me what it means—"Payment for expenses"—let me read it to you.

Mr. NEW. May I follow you with one I have here.

Mr. KELLEY. Yes; if you have one. At the bottom [reading]:

There are several entries charged to expense on the books of the Providence Engineering Co., and credited to the account of Wallace Downey, which I believe should be charged to their overhead and not directly to their contract expense account. Apr 1, for amount allowed to Wallace Downey by board of directors for indemnity bond, \$7,825. September, for services as chairman of the board of directors at \$1,000 a month, for six months, \$6,000; September, partial payment.

This is the one that caught my eye [reading]:

For furnishing, guaranteeing financial credit and working capital, \$10,000.

Mr. NEW. Yes.

Mr. KELLEY. That is the month that the \$10,000 note was paid?

Mr. NEW. Yes.

Mr. KELLEY. What effect does that bookkeeping have on the Government?

Mr. NEW. I agree—I am not an accountant or an auditor—I agree with the auditor's statement that it should be under overhead expenses.

Mr. KELLEY. What effect does it have? Who is going to pay—that is what I am interested in—that is, Sands.

Mr. NEW. It had already been paid at this time.

Mr. KELLEY. By whom?

Mr. NEW. By the Providence Engineering Co.

Mr. KELLEY. What difference did that make to the Government of the United States?

Mr. NEW. What difference does it make?

Mr. KELLEY. Yes.

Mr. NEW. If they did not have sufficient funds to finish the contract it would make a wonderful difference to the corporation.

Mr. KELLEY. That is the idea exactly.

Mr. NEW. If they did have sufficient funds to live within this contract it is none of our business.

Mr. KELLEY. If everything came out all right at the finish it would not make any difference.

Mr. NEW. Not a bit.

Mr. KELLEY. But if you had to settle and sustained a loss, this money having been paid out, the Government would lose it; is that right?

Mr. NEW. If the Government gave them anything in excess of the contract, if the Government did not force them to live within the terms of the contract, that was an expense that should not have been allowed.

Mr. KELLEY. Do you think the situation as it exists as to this company—the allowing of it—was in any way detrimental to the Government?

Mr. NEW. I do not see where the Government—if this contract works out——

Mr. KELLEY (interposing). I am saying “as it stands.” This war is over now, and we are settling up and everything is stopped. As this contract has worked out, if those items are charged as this accountant says they are charged, how does that prejudice the Government?

Mr. NEW. Not at all.

Mr. KELLEY. Then, why did you agree with the accountant that it should be charged to some other account?

Mr. NEW. From an accountant standpoint.

Mr. KELLEY. That would not make any difference, if the money was not to be paid.

You are familiar enough with the affairs of this company to know it would not make any difference which way these accounts were kept, would it?

Mr. NEW. It is something we have nothing to do with as long as they lived within the contract.

Mr. KELLEY. As a matter of fact, is it not true that this concern and the others were down here in November—the Downey Shipbuilding Corporation—for claims aggregating large sums of money against the Government, which are still unsettled?

Mr. NEW. What are you asking about now—the Downey or the Providence?

Mr. KELLEY. Let us take this one.

Mr. NEW. I understand that the Downey Shipbuilding Co. have large claims against the United States Shipping Board Emergency Fleet Corporation.

Mr. KELLEY. And do some of those claims grow out of the fact that they have had to pay enormous commissions elsewhere for establishing credit?

Mr. NEW. I do not know.

Mr. KELLEY. How could you find that out?

Mr. NEW. By the audit that has been made of the Downey Shipbuilding Co. operations.

Mr. KELLEY. Will you undertake to find out about that?

Mr. NEW. Will I undertake to find out about that?

Mr. KELLEY. Yes; and report to the committee some time in Washington, in order to see what is the matter with this concern?

Mr. NEW. I will do that; yes, sir.

Mr. KELLEY. About this company?

Mr. NEW. Although, I should say that to make that report that you are requesting, you should call another witness rather than myself.

Mr. KELLEY. Will you see that the proper person is——

Mr. NEW (interposing). Subpoened?

Mr. KELLEY. No. Let us know who it is, if you are not the right one.

Mr. NEW. Yes. I should say that the proper party to call for that evidence would be the district comptroller in New York, the construction division.

Mr. KELLEY. Have you not got all the data in Washington?

Mr. NEW. Yes, sir.

Mr. KELLEY. What is the use of coming up to New York for it—why not get it right there?

Mr. NEW. Do you not prefer getting your information from the source in which it originates? If I report, I will report from information that I obtained from him, if I give evidence of it. However, if you want me to do it, I will give it.

Mr. KELLEY. Is not the information that you are going to settle on——

Mr. NEW (interposing). That I am going to settle on?

Mr. KELLEY. When I say "you" I mean the Shipping Board always.

Mr. NEW. I assume it is, if that is the information the settlement may be based on.

Mr. KELLEY. That ought to be good enough for us, should it not?

Mr. NEW. Yes. I do not know that the final figures, however, are in.

Mr. KELLEY. If you will supply that to us, we will assume it is all right; and also as to this company?

Mr. NEW. Yes.

Mr. KELLEY. That will clear it all up.

Mr. NEW. Yes.

The CHAIRMAN. Do you know, Mr. New, whether the Providence Engineering Corporation has large claims pending against the Government for changes and extras?

Mr. NEW. Mr. Walsh, I will have to answer that in a general way. My understanding is that they have a claim for changes and extras, in the designs of the ships; that is my understanding. I can not give you definite and direct testimony on that.

The CHAIRMAN. A number of these matters about which you have testified do not come under your direct supervision or knowledge, do they, Mr. New? What I mean to say is, your special work is in the credit branch?

Mr. NEW. Yes. My special work is the credits. The construction division, insurance department, the budget, of both the operating and construction divisions.

The CHAIRMAN. Are you consulted, or do you prepare reports upon which are based settlements?

Mr. NEW. I do not.

The CHAIRMAN. That is done by some other official?

Mr. NEW. Yes.

The CHAIRMAN. The committee will now stand adjourned until 9.15 o'clock to-morrow morning.

(Thereupon, at 10.56 o'clock p. m. the committee adjourned to meet to-morrow, Wednesday, December 1, 1920, at 9.15 o'clock a. m.)

SELECT COMMITTEE ON
UNITED STATES SHIPPING BOARD OPERATIONS.
HOUSE OF REPRESENTATIVES.

New York, December 1, 1920.

The committee met in exhibit room No. 6, Pennsylvania Hotel, at 9.15 o'clock a. m., Hon. Joseph Walsh (chairman), presiding.

Present also: Hon. Patrick H. Kelley, member of committee.

TESTIMONY OF MR. JOHN M. CRANOR.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Your name, Mr. Cranor?

Mr. CRANOR. John M. Cranor.

The CHAIRMAN. Where do you reside, Mr. Cranor?

Mr. CRANOR. My home is at Richmond, Va., but I live here.

The CHAIRMAN. New York?

Mr. CRANOR. Yes.

The CHAIRMAN. What is your residence in New York?

Mr. CRANOR. Great Northern Hotel.

The CHAIRMAN. What is your business, Mr. Cranor?

Mr. CRANOR. I am interested in coal and iron.

The CHAIRMAN. At one time were you representing or employed by the Downey Shipbuilding Corporation or the Providence Engineering Co.?

Mr. CRANOR. Yes, sir; in 1918.

The CHAIRMAN. In what capacity were you representing them or employed by them?

Mr. CRANOR. Well, I was assistant to the president.

The CHAIRMAN. Mr. Wallace Downey?

Mr. CRANOR. Yes.

The CHAIRMAN. Do you know Mr. R. Wilmer Bolling?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. Mr. Tucker K. Sands?

Mr. CRANOR. Yes.

The CHAIRMAN. Lester Sisler?

Mr. CRANOR. I knew Mr. Sisler—that is, I would recognize him.

The CHAIRMAN. Did you have occasion to visit officials of the Shipping Board in connection with a contract of the Downey Shipbuilding Corporation or the Providence Engineering Corporation?

Mr. CRANOR. Well, I saw Mr. Hurley.

The CHAIRMAN. Yes, sir. Now what about, Mr. Cranor?

Mr. CRANOR. I saw Mr. Hurley about a contract for the Downey Shipbuilding Co. and for the Providence Engineering Co.

The CHAIRMAN. How many times did you talk with him?

Mr. CRANOR. Once, I believe; possibly twice.

The CHAIRMAN. That was in 1918?

Mr. CRANOR. Yes, sir; somewhere possibly in February or the early part of March; I should say February, however.

The CHAIRMAN. The Downey Shipbuilding Corporation already had a contract with them at that time, didn't they?

Mr. CRANOR. Yes; for ten ships.

The CHAIRMAN. This was about another contract?

Mr. CRANOR. Yes, sir; this is another contract.

The CHAIRMAN. Were you endeavoring to secure a contract or were you discussing the details about a contract that had been agreed upon?

Mr. CRANOR. Well, I was trying to—I was doing both. I was discussing various details in matters in connection with the contract which was already in existence, and endeavoring to get new business also.

The CHAIRMAN. Were you a stockholder in either of those corporations?

Mr. CRANOR. No, sir.

The CHAIRMAN. Did you get the new business, and did you adjust the details?

Mr. CRANOR. Well, some of them I did, and some of them I did not.

The CHAIRMAN. Did you get a new contract?

Mr. CRANOR. No, sir.

The CHAIRMAN. What was the reason for that?

Mr. CRANOR. Well, I would say that it was because he had a contract for 10 ships, none of which had been delivered, and you might say slow delivery, I suppose. There was a disposition on the part of the board, I should judge, not to give new contracts where there was already existing contracts unless some of the ships were being delivered, which in this case was not being done.

The CHAIRMAN. Did you make your headquarters in Washington along about this time?

Mr. CRANOR. I lived at the Willard Hotel for about 12 or 14 months—probably 14 months.

The CHAIRMAN. Now, did you have occasion to meet Mr. Tucker K. Sands during this period?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. On what matters?

Mr. CRANOR. Well, I had known Mr. Sands down at Richmond, my home, a good many years when he was cashier and vice president of the Bank of Richmond; I carried an account there, and sometimes borrowed considerable money with him; and was very well acquainted with him; and it was perfectly natural that I should go to see him

when I went to Washington, and I dropped in occasionally to see him at the bank.

The CHAIRMAN. Did he ever introduce you to Mr. Bolling?

Mr. CRANOR. I don't think so. I don't recall.

The CHAIRMAN. Do you remember when you first met Mr. Bolling, and by whom you were introduced?

Mr. CRANOR. No, sir; I went to his father's house, 35 or 40 years ago; I don't remember; I don't know whether I knew him then or not, I don't think I did; and I don't remember very much about where I did meet him first or when.

The CHAIRMAN. Well, would you say you had met him before you went to Washington in 1918?

Mr. CRANOR. I reckon so; I don't know; I don't recall.

The CHAIRMAN. Did you have any financial transactions through Mr. Sands during 1918, while you were in Washington.

Mr. CRANOR. Well, I don't know whether I did or not, I might; outside of this ship matter, you mean?

The CHAIRMAN. Yes.

Mr. CRANOR. I don't remember, I reckon so; but I don't remember.

The CHAIRMAN. Were you representing any other concerns there at that time, Mr. Cranor?

Mr. CRANOR. No, sir.

The CHAIRMAN. You were just looking after the interests of the Downey concern?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. The Downey Corporation?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. Did you ever offer anybody a commission or any sum of money for assisting in securing a contract for the Downey Shipbuilding Corporation or the Providence Engineering Corporation?

Mr. CRANOR. No, sir.

The CHAIRMAN. Did you ever enter into any arrangements with Mr. Tucker K. Sands, Mr. Lester Sisler, Mr. R. W. Bolling, or either or any or some of them, whereby Mr. Bolling and Mr. Sisler, or either of them, would assist in securing a contract for the Downey Shipbuilding Corporation or the Providence Engineering Corporation, and would share in a commission of some \$40,000?

Mr. CRANOR. No, sir.

The CHAIRMAN. Did any transaction of that sort take place?

Mr. CRANOR. No, sir.

The CHAIRMAN. Never had any discussion of anything like that?

Mr. CRANOR. No, sir.

The CHAIRMAN. Did you ever use Mr. Sands to use his influence with Mr. Bolling and Mr. Sisler to get a contract for the Downey company?

Mr. CRANOR. No, sir.

The CHAIRMAN. Either for them or the Providence Engineering Co.?

Mr. CRANOR. No, sir.

The CHAIRMAN. Or the other shipbuilding company?

Mr. CRANOR. No, sir.

The CHAIRMAN. Did you ever meet Mr. Bolling in Mr. Sands's apartment at the Willard?

Mr. CRANOR. I rather think I did one night, but I don't remember.

The CHAIRMAN. You recollect anything about the occasion, Mr. Cranor?

Mr. CRANOR. Well, in what way?

The CHAIRMAN. About the occasion of your meeting him there; what you were doing there?

Mr. CRANOR. Yes, sir; sure.

The CHAIRMAN. What was the occasion.

Mr. CRANOR. Well, I had a quart of old liquor, and it was pretty good, and I could make a pretty good toddy, and we were having some toddies.

The CHAIRMAN. It was a social call?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. No business transacted?

Mr. CRANOR. No, sir.

The CHAIRMAN. Did you ever meet Mr. Sisler in there? You did, did you not?

Mr. CRANOR. I don't remember of ever meeting Mr. Sisler but once in my life, in some one of the offices in Washington where Mr. Hurley's office was. I never was in the house but once or twice in my life, and the gentleman appeared, and I think I met him in that office.

The CHAIRMAN. Did Mr. Downey ever come to Washington personally, Mr. Wallace Downey?

Mr. CRANOR. Yes, sir; he came down occasionally.

The CHAIRMAN. Was he ever in Mr. Sands's apartment at the Willard?

Mr. CRANOR. I could not tell you about that; never with me.

The CHAIRMAN. Never with you?

Mr. CRANOR. No, sir.

The CHAIRMAN. When you were there?

Mr. CRANOR. No, sir.

The CHAIRMAN. Now, did you assist the Providence Engineering Co. or participate in arranging credit for them to satisfy the credit department of the Shipping Board in order that they might get a contract?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. Now, will you tell us just what you did in that respect, Mr. Cranor, beginning at the start of the transaction: Whom you saw and what arrangements you made, and what was done?

Mr. CRANOR. I think I might just tell you all that I know about this, and then it would set some matters very clearly before you from what I read in the papers.

The CHAIRMAN. Yes, sir.

Mr. CRANOR. I went down to Washington on the 7th day of February, 1918. I didn't know anybody much, never been around Washington much; took me three or four days to get my hotel accommodations arranged. I went over to the Senate and saw Senator Tom Martin from Virginia, and told the Senator what I wanted to do, and I asked him if he would assist me or tell me how to go about it a bit; and he said he would be very glad to introduce me to Mr. Hurley. And he called up Mr. Hurley and introduced me over the phone, and told Mr. Hurley what I wanted, and he would be very

glad, anything that he could do, to do. And made an arrangement for me and I went over to see Mr. Hurley. This is probably about the end of February.

Then I arranged this contract. I had never met Mr. Bolling or Mr. Sisler nor Mr. Sands about a contract. I had not spoken to them at all. I had not spoken to Mr. Sands about the contract other than to say that I was to get one. And I arranged the matter. And after arranging it I found from the department's office that the financial standing of the Providence Engineering Corporation was not satisfactory to the auditors of the Shipping Board, and I called up Mr. Downey and told him what was in the way of the consummation of the order, and he asked me if I could not arrange that in Washington, that he had had—would have to pay out a good deal of money here to do it with bankers, possibly give up stock or something of that sort, which we didn't want to do. And I said I would see Mr. Sands and see what I could do about it.

I had a talk with Mr. Sands about it, and as I recall, he told me he thought he could arrange it for us with several of his banking friends; that he would not like to do that in his own bank. And some few days later he wrote a personal letter to the auditor of the Shipping Board, a copy of which he showed me, in which he agreed to underwrite for \$100,000 or \$125,000, whatever it was.

It went along a few days after that and that wasn't acceptable. I went to the auditor's office and saw Mr. New, the only time I ever saw him in my life until I saw him the other day in Washington and here last night, and I said to Mr. New, "Isn't there any way that we can get this thing straightened out?" "Well," he said, "Mr. Cranor, there is no evidence before us that this company has enough working capital to go on with." "Well," I said, "I have arranged that with Mr. Sands, and I believe you have a letter." He said, "Yes, sir; I have that letter, but I returned it because it was not satisfactory." "Well," I said, "Mr. Sands said he would arrange it, so may I use your phone?" He said, "Yes." I called up Mr. Sands. I said, "Mr. Sands, I am in the auditor's office of the Shipping Board, and I would like to arrange this matter so that this order can be signed up, if possible, to-day." This was possibly 2 or 3 o'clock in the afternoon. He said, "That is all right." He said, "I will arrange it." I said, "Will you tell the auditor that and satisfy him?" And he said, "I will." And I gave the phone to the auditor, Mr. New, and he called up also Mr. Sands, and Mr. Sands said he would do it, and Mr. New said, "That is all right," and he said, "I want you to sign that letter as vice president of the bank."

I don't know what the conversation was about that, but they talked a little bit, and he agreed to it at that time. Mr. New said, "All right," he said, and he hung up the phone; but he said to him, "Send the letter over by a boy"; and I think Mr. New said to him that he would formulate a letter, and send over to him a copy of which he would like signed, about the form of the letter. And he sends that letter over by hand I believe, that night or the next morning; anyway Mr. New called up the contract department, and told them it was all right to sign the contract, and they signed it that same afternoon, and gave it to Mr. Hussey, the president of the Providence Engineering Co.

I had, of course, previously arranged to pay Mr. Sands \$40,000 for taking on that responsibility. He thought he ought to have a little more money; he thought he ought to have 2 per cent of the contractual price, which would be about \$56,000. But I got it down to \$40,000, and he said he didn't much like to take the responsibility, but he finally did. I don't know anything about the settlement of it after that, the arrangement of the amount; that is all so far as I was concerned and had to do with it.

The CHAIRMAN. That was about the 14th or 15th of March, along there?

Mr. CRANOR. I reckon so; I don't remember about this—the dates.

The CHAIRMAN. Assume the contract was dated the 14th of March, Mr. Cranor, just assume that to be true, and I think that is the date.

Mr. CRANOR. Yes.

The CHAIRMAN. You say this talk was about, along about the time that Mr. New called up?

Mr. CRANOR. That was the same day I went over from the Willard Hotel to his office, I don't remember where it was; I reckon it was around toward Seventh Street, I don't remember. I got into a taxicab and rode to his office because I was in a hurry, and wanted to get down if I could; and Mr. Hussey went over to the contract department of the Shipping Board. Where that was I could not say; I was never in it in my life; I don't know; wherever that was he was there; Mr. Hussey made all the arrangements over there, and did all the arranging.

The CHAIRMAN. And that was the first time you ever had seen Mr. New?

Mr. CRANOR. Yes, sir; I think that is the first time I saw Mr. New.

The CHAIRMAN. Mr. Hussey there with you at that time?

Mr. CRANOR. No, sir.

The CHAIRMAN. He was not?

Mr. CRANOR. No, sir; nobody but Mr. New and myself.

The CHAIRMAN. You say you never saw Mr. New again until you saw him here last evening, or did you meet him in Washington the other day?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. What was the occasion of your meeting him in Washington?

Mr. CRANOR. I went down to Washington last Friday night. I saw these statements in the paper, and I thought they were rather wild statements, and I went down to tell them all that I knew about this financial arrangement. I met Mr. New there.

The CHAIRMAN. What was there that made it necessary to tell Mr. New about it?

Mr. CRANOR. There wasn't anything.

The CHAIRMAN. You just happened to meet him?

Mr. CRANOR. Yes; I just happened to meet him.

The CHAIRMAN. Did you talk over about, or attempt to refresh his recollection about, this conversation you had had with him?

Mr. CRANOR. Well, no; I did not bother about that. I just told him what arrangements I had made with Mr. Sands, and spoke about this conversation in his office, and he reminded me that Mr. Sands had written a personal letter before, which I had forgotten about. I

remember it was talked about, but it had slipped my mind, and he reminded me of that.

The CHAIRMAN. Were you authorized to fix the commission or the compensation?

Mr. CRANOR. No, sir; I was not; and I did not do it. Mr. Downey didn't want to pay but \$30,000 for the underwriting, and I told him I could not arrange it for that money, and he and Mr. Sands settled it up. I was not present, don't know anything about it, but they finally settled it.

The CHAIRMAN. Was he in Washington?

Mr. CRANOR. Yes, sir; he was in Washington.

The CHAIRMAN. Was he in Washington at the time you had the talk with Mr. New?

Mr. CRANOR. No; that was before. He did not settle it with Mr. Sands until after that.

The CHAIRMAN. Do you know when the payment was made for this service by Mr. Sands?

Mr. CRANOR. No, sir; I do not.

The CHAIRMAN. And you do not know how it was made?

Mr. CRANOR. No, sir; I do not.

The CHAIRMAN. You never delivered any part of the payment to Mr. Sands?

Mr. CRANOR. No, sir; I had nothing to do with that.

The CHAIRMAN. Did you have to see Mr. Bolling in this connection at all, about this contract?

Mr. CRANOR. I never saw Mr. Bolling about this contract in my life. I never mentioned it to him, but I think I met Mr. Bolling one day when I was in Admiral Bolling's office in Washington.

The CHAIRMAN. Admiral Bolling or Admiral Bolles?

Mr. CRANOR. Admiral Bolles; pardon me, Admiral Bolles. I went in to see Mr. Cox, his secretary, and I met Mr. Bolling in the office just accidentally. He was not in the inside office, but in the outside office. And Mr. Downey was with me, and I think Mr. Downey's attorney, Mr. — I don't recall his name now.

The CHAIRMAN. Did you discuss any business matter with Mr. Bolling at that time?

Mr. CRANOR. No, no; I just met him; just met him in the office. I may have met him before; I don't remember about that, you know; but I don't remember. I remember meeting him in the office that morning.

The CHAIRMAN. Did you have occasion to see Mr. Bolling anywhere in connection with this transaction or any other transactions that you were interested in down there?

Mr. CRANOR. No, sir. I arrived in Washington on February 7, and this contract was granted March 14, and I did not have much time to see anybody and did not see anybody until after this contract was granted, and I seriously doubt if I had even met Mr. Bolling when this contract was given. I do not think I had. I do not think I had met Mr. Sands more than once or twice, and I do not think I had even discussed this contract, except when I came up against the financial end of it.

The CHAIRMAN. Had you tried to arrange this credit through other sources?

Mr. CRANOR. No, sir; I had not.

The CHAIRMAN. Mr. Sands was the only person you went to?

Mr. CRANOR. Well, I did not go down there to finance. Washington is a poor place to finance, I should say. However, it seemed to be a good one during the war. But I went down there to get a contract, and Mr. Downey, knowing that I knew Mr. Sands, asked me if I could not arrange this cash there, because he would save a lot of money by it in his opinion—which I expect is true.

The CHAIRMAN. So that the matter of arranging the credit came up afterwards. You were there to try to get this contract for the Providence Engineering Co.?

Mr. CRANOR. Right.

The CHAIRMAN. And in trying to get it you had everything all arranged until the credit department said that they did not have sufficient working capital?

Mr. CRANOR. Right; yes, sir.

The CHAIRMAN. And then you reported to Mr. Downey, and he told you to try to arrange that credit in Washington, and you went and saw Mr. Sands; he undertook to establish that credit personally and with some friends of his?

Mr. CRANOR. Yes, sir; that is the way he talked it over with me.

The CHAIRMAN. And gave a letter to that effect?

Mr. CRANOR. Yes, sir; several days afterwards—probably a week later.

The CHAIRMAN. Yes; which was sent to the Credit Department and the contract was not awarded, and a few days afterwards you had a talk with Mr. New, and he told you that he had returned the letter and that he must have a letter binding the bank?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. And later that letter came, signed by Mr. Sands as vice president.

Mr. CRANOR. That same day, I believe. I never saw that letter, Mr. Walsh, but that letter was given by Mr. Sands, as I understand it, that same afternoon.

The CHAIRMAN. And the contract was signed, and as far as your connection with the matter is concerned, that ended it?

Mr. CRANOR. Yes, sir; that is right.

The CHAIRMAN. Did you remain in Washington after that?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. In what capacity?

Mr. CRANOR. Well, Mr. Downey asked me to remain there to get the steel and the plates and further business for the Downey Shipbuilding Co., and various things that had to be done in those trying times to get material.

The CHAIRMAN. Did you get any bending rolls at any time for the Downey Shipbuilding Corporation?

Mr. CRANOR. What do you mean, get bending rolls?

The CHAIRMAN. Whether any bending rolls that were allocated or to be sent the Downey Corporation?

Mr. CRANOR. Oh, yes; yes. Mr. Downey, in the fall or winter—the late fall before, had bought—I am not familiar with shipbuilding, but I think they call them bilge rolls, that roll the curved plates in the ship, of the—well, I don't remember, I think it is the South-

wicke Iron Co., or something like that, in Philadelphia, for something like \$40,000, or something like that that they had cost—\$42,000.

The CHAIRMAN. When did you say this was—the fall before?

Mr. CRANOR. In the fall before; yes, sir.

The CHAIRMAN. 1917?

Mr. CRANOR. Yes sir; 1917, in the fall. I could not tell you, it might have been late summer. I am rather inclined to think it was July, but I am not sure now; I could not tell you that. And it seems as though Admiral Bolles had ordered these rolls to be sent to some concern in San Francisco, I don't know whether it was a pipe and bending concern, or something like that, that had gone into the shipbuilding business or not, but I think so.

The CHAIRMAN. The Western Pipe & Steel Co., might it have been?

Mr. CRANOR. I reckon something like that; I don't remember. And they were sending those rolls out there, and I found out that there was another plant within two miles of that plant that had bilge rolls in, and they are not used very much, so I suggested that they could arrange to use those same bilge rolls for the two plants, even if they were not good friends. I understand they were not good friends, these two concerns, and I went over and told Senator Martin that I thought that ought to be done, that this was no time to fight among ourselves, we were fighting Germans; and I suggested that Admiral Bolles be requested to give Mr. Downey these rolls.

The CHAIRMAN. When was this?

Mr. CRANOR. Oh, I reckon it was in February, but I don't know, Mr. Walsh.

The CHAIRMAN. What I mean was, you were not down there in Washington at the time these rolls were being shipped somewhere else?

Mr. CRANOR. Yes, sir. That was during February, 1918. You see, it takes a long time to build those rolls. They had to be built, you know; they are very heavy, and it takes a good while to build them.

The CHAIRMAN. You did not mean to say, then, that in the fall of 1917, Admiral Bolles had ordered these sent somewhere else?

Mr. CRANOR. No, sir; they were ordered—

The CHAIRMAN. That is when Mr. Downey had ordered them?

Mr. CRANOR. Mr. Downey ordered them at that time. And in February, I should say, maybe January, I was not in Washington in January, but it came to my attention some time in February—possibly the middle or something like that—of 1918, that these rolls were ordered to this plant in the west. And I think that the Senator called up somebody, I don't know who, and maybe they called up Admiral Bolles, I don't know how that was done; anyway, in a few days Mr. Cox, his secretary, gave me these rolls, gave an order to ship them to Downey.

The CHAIRMAN. Did you ever see Mr. Sands about that?

Mr. CRANOR. No; about those rolls?

The CHAIRMAN. Yes, sir.

Mr. CRANOR. Why should I see him about rolls?

The CHAIRMAN. No; I am asking you if you ever saw him about that?

Mr. CRANOR. No, sir; not that I recall.

The CHAIRMAN. Ever ask him to help you in the matter?

Mr. CRANOR. No.

The CHAIRMAN. Did you ever pay him any money for assisting you in the matter?

Mr. CRANOR. No, sir. Money for getting rolls?

The CHAIRMAN. Yes, sir.

Mr. CRANOR. No, sir.

The CHAIRMAN. Do you know that Mr. Bolling testified that Mr. Sands came to him and said that either you or the Downey company had paid him some money for helping you or the Downey company get some bending rolls, and that he, Sands, offered to take care of Mr. Bolling.

Mr. CRANOR. No, sir; I have not read the testimony, but I never heard of it.

The CHAIRMAN. Well, you never offered nor paid Mr. Sands anything for bending rolls?

Mr. CRANOR. No, sir; nothing else; I never paid him anything except for this underwriting. I did not pay him that, but I arranged to have it paid by the company.

The CHAIRMAN. That is the only arrangement for payment that you made?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. With him, and the actual payment in that case was made by somebody else?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. You did not make it yourself?

Mr. CRANOR. No, sir.

The CHAIRMAN. Did you get the order from Admiral Bolles's secretary for the bending rolls to go to the Downey plant?

Mr. CRANOR. No, sir; that was sent to the plant.

The CHAIRMAN. That was sent to the plant?

Mr. CRANOR. Yes; I never saw the order, but Mr. Cox, his secretary, told me that he had mailed it the night before.

The CHAIRMAN. Did you borrow any money from Mr. Sands while you were in Washington?

Mr. CRANOR. Well, I may have; I don't know; I don't remember.

The CHAIRMAN. Do you know whether Mr. Sands paid you any money by check, by his check or the check of the Commercial Bank, while you were there?

Mr. CRANOR. Well, I expect he did; I don't remember, though.

The CHAIRMAN. What might it be for?

Mr. CRANOR. Well, sometimes I probably borrowed money of him, and sometimes—he owed me a little bit of money on a matter, and he may have given me a check on that—I don't know.

The CHAIRMAN. What was the matter?

Mr. CRANOR. He said to me one day that the Washington Street Railway Co. would pay him \$10,000 if he would introduce them to somebody that would finance the Mount Vernon & Camp Humphrey Railway, a little short line built from Mount Vernon to Camp Humphrey, and he wanted to know of me if I knew of anybody that I thought would finance that. He said he would divide that with me if I did; and I said, "Well, I don't know, Mr. Sands. I will see about it." And I talked to Mr. Fisk, of Harvey Fisk Sons &

Co., and they finally financed it, and he owed me that. That is all that I know of that he would owe me for. I owed him a little bit of money at the time; I don't remember; about \$750, I think.

The CHAIRMAN. Did he pay you that?

Mr. CRANOR. I paid that about that same time. I paid it somewhere along that time.

The CHAIRMAN. Well now did he pay you a share of the commission?

Mr. CRANOR. At that time?

The CHAIRMAN. Yes.

Mr. CRANOR. This other commission?

The CHAIRMAN. This railway financing.

Mr. CRANOR. Well, you see, Mr. Walsh, that was probably some months later. That is, I mean to say, in the spring or summer. I don't remember about the time, but it was later.

The CHAIRMAN. The spring or summer of 1919?

Mr. CRANOR. 1918, probably March or April, somewhere along there, and I think he paid me a thousand or two dollars—I think he paid me about \$3,000 of that; I do not recall the amount. He did not pay it all to me; I know that.

The CHAIRMAN. He still owes you something?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. Do you know anything at all about the transactions out of which arose the indictment of Mr. Sands?

Mr. CRANOR. No, sir; I do not know a thing about that; no.

The CHAIRMAN. You were not connected with that in any way?

Mr. CRANOR. I went down to Washington in February, 1918, you see, and I don't know anything about his private business at all.

The CHAIRMAN. How long were you there, did you say, Mr. Cranor?

Mr. CRANOR. I was there until the 27th day of March, 1919.

The CHAIRMAN. About a year. But you were then when he was indicted?

Mr. CRANOR. Yes, sir; I was there.

The CHAIRMAN. You heard about it?

Mr. CRANOR. I heard about it, yes; he talked to me about it.

The CHAIRMAN. Did he ever ask you to intercede with anybody in his behalf in this indictment matter?

Mr. CRANOR. I reckon so; but I just don't remember about it.

The CHAIRMAN. Have you seen him since you were in Washington?

Mr. CRANOR. No, sir; I have not.

The CHAIRMAN. The \$750 that you said you owed him, that was a personal matter between you and him?

Mr. CRANOR. Yes; something I had owed him about a year.

The CHAIRMAN. What business were you engaged in just before you went down there for the Downey company, Mr. Cranor?

Mr. CRANOR. I was in the coal business.

The CHAIRMAN. Are you an officer of some coal company?

Mr. CRANOR. Well, yes; I am an officer of one.

The CHAIRMAN. What company?

Mr. CRANOR. The American Foreign Foreign Fuel Co.

The CHAIRMAN. Did you talk with Mr. Bolling the other day when you were in Washington?

Mr. CRANOR. Well, I did not talk to Mr. Bolling, I talked to Mr. Bolling and Mr. — the comptroller, what is his name?

The CHAIRMAN. Mr. Tweedale?

Mr. CRANOR. Mr. Tweedale, and Mr. New; they were in the room together.

The CHAIRMAN. You talked with those three gentlemen?

Mr. CRANOR. Those three gentlemen; yes.

The CHAIRMAN. About these transactions in general refreshing your recollection and theirs.

Mr. CRANOR. I talked with them about this commission on this loan, this bonus, as it were, for this working capital.

The CHAIRMAN. Yes, sir. Well, had you ever arranged credit in that way before for anybody, Mr. Cranor?

Mr. CRANOR. Well, I have arranged, been at it for 25 or 30 years, for myself and associates and others, yes, sir.

The CHAIRMAN. Was that not rather an exorbitant commission or bonus or whatever you may call it, for that amount of credit \$40,000?

Mr. CRANOR. Well, Mr. Walsh, I do not think so, considering the size of the contract, no. I think that is about as well as you could do anywhere.

The CHAIRMAN. For \$125,000?

Mr. CRANOR. Well, you don't consider \$125,000, Mr. Walsh.

The CHAIRMAN. No.

Mr. CRANOR. You consider \$2,850,000.

The CHAIRMAN. Yes.

Mr. CRANOR. And, Mr. Downey settled for \$25,000, which was less than 1 per cent, and it is about as good as I have ever been able to do, maybe better.

The CHAIRMAN. Did you assist in arranging credit for the Downey Shipbuilding Corporation here in New York during this time?

Mr. CRANOR. No, sir, I did not.

The CHAIRMAN. Or prior to that?

Mr. CRANOR. No, sir, I did not.

The CHAIRMAN. Had you known Mr. Downey long before you went down to Washington?

Mr. CRANOR. Not long; no, sir.

The CHAIRMAN. You met him in New York here?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. Do you remember through whom you met him?

Mr. CRANOR. No, I do not, I do not remember that.

The CHAIRMAN. Had you met Mr. Bolling here in New York while he was in the bank examiner's office?

Mr. CRANOR. No, sir, I don't think I did; I don't remember of it.

The CHAIRMAN. Do you remember whether you met Mr. Downey through Mr. Sands the first time?

Mr. CRANOR. No, I did not meet him through Mr. Sands, no, sir.

The CHAIRMAN. And you are certain that Mr. Sands was not consulted by you with reference to these bilge rolls or bending rolls at any time?

Mr. CRANOR. No, sir. I may have told him that is was putting us out, putting the corporation out a good deal, or something like that, but I never consulted him about it in any way.

The CHAIRMAN. You never asked him to see if he could help you?

Mr. CRANOR. No.

The CHAIRMAN. You never offered to pay him if he would help you?

Mr. CRANOR. No.

The CHAIRMAN. You never actually paid him or arranged for Mr. Downey to pay him—

Mr. CRANOR. No, no.

The CHAIRMAN (continuing). In connection with that matter?

Mr. CRANOR. No, no; no, sir.

The CHAIRMAN. Did Mr. Downey ever tell you that he paid Mr. Sands anything for assistance rendered in securing these bending rolls?

Mr. CRANOR. No, sir.

The CHAIRMAN. When first did you know that Mr. Sands claimed that he had received a fee from Mr. Downey or his corporations for help in getting these bending rolls?

Mr. CRANOR. I did not know he had, until you spoke of it here.

The CHAIRMAN. This was the first you had ever heard of it?

Mr. CRANOR. Yes; I did not know he had ever spoken about anything like that.

The CHAIRMAN. You did not hear Mr. Bolling testify yesterday; you got here late last evening?

Mr. CRANOR. No, sir; I was here late last night. I did not know you wanted me until late last night; I found a telephone call from somebody here asking me to come down, and I came down to see what you wanted.

The CHAIRMAN. Did you ever consult Mr. Tumulty, the secretary to the President, in connection with the Downey contract?

Mr. CRANOR. No, sir.

The CHAIRMAN. Do you know him?

Mr. CRANOR. No, sir; I do not.

The CHAIRMAN. I think you stated you only saw Mr. Hurley, you thought, once?

Mr. CRANOR. That is all.

The CHAIRMAN. Did you ever talk with Mr. Piez, Mr. Hurley's assistant, about this Downey contract or either of the contracts?

Mr. CRANOR. I reckon so, but if it is so, possibly once. As I remember it, he told me they would be very glad to give us the contract if everything was all right and the price was right, because they needed about 50 of these tugs. It was not a question of getting an order, it was a question of getting tugs, and all I needed to do was to arrange the matter so that the board knew that tugs would be delivered, and the business would be given to us.

The CHAIRMAN. How many tugs?

Mr. CRANOR. I think he told me that he would give us as many as we could possibly turn out, because they wanted 50, I think that is it.

The CHAIRMAN. Do you know what the contract called for?

Mr. CRANOR. I think the contracts call for 10. I have never seen it. I think it is 10; it is either 10 or 12. I asked for 12, I think.

The CHAIRMAN. Do you know that your company did have six?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. How was the number increased, do you remember?

Mr. CRANOR. I asked them to increase it to 12, and asked them to increase the price, because after the bid was put in the labor was going up and material every day, and I found out from Mr. Schwab's representative that he was getting, I think it was, \$307,000 for the same tug, and I told Mr. Hussey to put in a bid for 12 of them at \$295,000 and he would get them in my opinion.

The CHAIRMAN. Who was Mr. Schwab's representative that you saw?

Mr. CRANOR. I do not remember what his name was. I do not know him personally, but I——

The CHAIRMAN. You met him in Washington?

Mr. CRANOR. No, sir, I did not meet him; but I sent some one to see him or find out about this, and they saw him and told me what it was.

The CHAIRMAN. Your company had put in a bid for six at \$270,000?

Mr. CRANOR. I think so. That was before I was with them; I did not know anything about it.

The CHAIRMAN. Oh, yes; and then you got down there, you went down and began making arrangements for the award of the contract, etc., and you found out they were anxious for tugs and wanted a great many; and was a supplemental bid put in there for 12 at \$295,000?

Mr. CRANOR. I found out, the first thing I done, what other people was bidding for them. That is the first precaution that I took, because I knew nothing about tugs. When I found out that Mr. Schwab was getting around \$300,000 I did not see any reason why Downey should not have about \$300,000, and I immediately told Mr. Hussey to put in a bid for 12 of them at \$295,000, that that was the price I thought he could get. I think he told me that they cut him down to 10 tugs at \$285,000.

The CHAIRMAN. Well now, the mere fact that the price of wages was going up and the cost of material was going up did not make any difference to the Providence Engineering Co., did it, Mr. Cranor, at that time? The Fleet Corporation was taking care of all that, was it not?

Mr. CRANOR. I would not think so, Mr. Walsh, when they bid so much money per ton for a ship, or so much per piece. They bid \$285,000 apiece. Certainly the shipbuilding company would have to stand any increase in labor or material, unless there was a clause in the contract that provided for that.

The CHAIRMAN. Was there not a clause in there which took care of the increased wage cost, and also the advance in material?

Mr. CRANOR. I reckon so, Mr. Walsh; but that at \$265,000 would not be as much to the corporation as it would at \$285,000, and there was a good deal of difference in two weeks, in those days, sometimes, in prices.

The CHAIRMAN. Did you see anybody in reference to having this price increased?

Mr. CRANOR. Why should I?

The CHAIRMAN. From \$270,000 to \$285,000.

Mr. CRANOR. Why should I, Mr. Walsh, when I knew what other people were doing, and knew what their wants were?

The CHAIRMAN. Yes; but your company had submitted a bid for six at \$270,000, had they not?

Mr. CRANOR. And I had told them to put in a bid for 12 at \$295,000.

The CHAIRMAN. But had the bid for six at \$270,000 been accepted?

Mr. CRANOR. I don't think so.

The CHAIRMAN. No contract had been drawn?

Mr. CRANOR. I don't think so. I don't know anything about it. I never was in that board room but once or twice, and I never asked anybody any questions about it, but I don't think so. If it had been I believe, except that they knew they would have to pay the increase anyway, it would be rather curious that they would increase the price to the new bid.

The CHAIRMAN. Well then, as I understand you, Mr. Cranor, when you arrived there you found that the Schwab company were offering to build some of these tugs and they were getting over \$300,000 for them, and the Shipping Board needed a great many, you were told, wanted to have about 50, and you felt that if the Schwab interests could get \$300,000 for a tug, there was no reason why your concern could not get more than it had originally bid, particularly when the cost of materials and the wage costs were increasing; so you advised Mr. Hussey—he was president of the concern?

Mr. CRANOR. Yes, sir; I believe he was president.

The CHAIRMAN. You put in a new bid?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. For 12 at \$295,000?

Mr. CRANOR. I did.

The CHAIRMAN. And you think that bid was submitted?

Mr. CRANOR. I think so. I think Mr. Hussey put that bid in at that price for that number. I am not positive about that now, but that is what I told him to do.

The CHAIRMAN. Yes, sir. I assume this all occurred between the date of your arrival in Washington and the date when the contract was finally consummated, March 14.

Mr. CRANOR. The first thing after I looked around and looked over the situation a little, to my mind, was to find out what these tugs were being built for by other people; and Mr. Schwab was a very well known man and his institutions were well known, and I took it for granted that he was building them at about what was correct. I knew nothing about them. And I ascertained that price, about the first thing I did, and when I found out it was \$307,000, as I remember, I immediately told Mr. Hussey to change his bid and put it in for the 12 at \$295,000.

The CHAIRMAN. Well, now, may not that fact itself have been the reason or the cause for some holding up in this contract and delay in granting it, the fact that your concern had originally offered to build six tugs for \$270,000, and then later come in and make a new bid for 12 at \$295,000?

Mr. CRANOR. Well, Mr. Walsh, I arrived there February 7, you see, and this contract was signed on March 14. I consider that extraordinarily rapid progress to make in obtaining contracts from the Government. I do not consider there was a holding up; I do not consider that the auditor asked for anything that he should not ask in the financial department. I think it was perfectly just and fair. I think I should have asked it myself; I would want to know that they had working capital enough.

The CHAIRMAN. But, Mr. Cranor, if I understand you correctly, if you folks had had \$125,000 on deposit in some bank when you arrived there, the contract would have been awarded, and you would not have been——

Mr. CRANOR (interposing). Probably a week earlier. No; not when I arrived there.

The CHAIRMAN. Not when you arrived there?

Mr. CRANOR. Because there was a bid in at that time for \$265,000 or \$270,000, or whatever it was, for five or six. That may have been pending some time, I don't remember, nor don't know. But I suppose it must have been the 15th or 20th before I ascertained the conditions that were prevailing, and when I advised this new bid to be put in. And there was a delay of a few days, of course, about the finances; but that is natural, and generally so in business, as I have observed it and found it in my firm.

The CHAIRMAN. Yes. Did you find other builders in Washington, with their representatives, who were also endeavoring to secure contracts for building tugs?

Mr. CRANOR. Well, I never met them, Mr. Walsh. I don't know them, nor never had them interviewed by anybody else, don't know anything about it. They were evidently there.

The CHAIRMAN. Were you the gentleman who finally agreed to the change in the contract from what the bid was, dropping it from \$295,000 to \$285,000?

Mr. CRANOR. No, sir; that was not within my—I had nothing to do with that. That was a matter for Mr. Hussey and the board to settle.

The CHAIRMAN. Was Mr. Hussey there?

Mr. CRANOR. Oh, he was in Washington all the time, practically.

The CHAIRMAN. How did you come to fix the figure at \$295,000? You had no authority to fix that figure in the bid, you just told Mr. Hussey that the Schwab people were getting \$307,000 and you thought they needed a lot of tugs, and if he put in a bid for 12 at \$295,000 it would be all right?

Mr. CRANOR. Mr. Hussey was president of the company, and I had no right to say that to him, other than that good business dictated it, to my mind.

The CHAIRMAN. That is, that was a suggestion you made to him?

Mr. CRANOR. As president of the company.

The CHAIRMAN. As a result of the information you had secured?

Mr. CRANOR. Certainly.

The CHAIRMAN. You did not pay anybody, or offer to pay anybody, for getting a contract for 12 at \$295,000, instead of a contract for 6 at \$265,000 or \$270,000, did you?

Mr. CRANOR. No sir; I did not, and I don't consider it was necessary, because all I did, in this world, was to tell Mr. Hussey what to do, and I did not see anybody about it at all, except I ascertained the conditions and gave him that advice; and that is all I ever did do about it.

The CHAIRMAN. Well now, you understand, Mr. Cranor, that I am asking these questions of you, and I do not want you to get the idea that I am saying that you did the things that are involved in my questions.

Mr. CRANOR. I quite understand.

The CHAIRMAN. But there has been information brought to this committee under oath, that you made an arrangement to pay \$40,000 to be split between yourself, Mr. Sisler, Mr. Bolling, and Mr. Sands, for procuring a contract with the Shipping Board; and we want your views of it and what you have to say about it in the record. So I am asking if this may have been a matter which resulted in your, or somebody, promising to make a payment of \$40,000, and I understand you to say you did not offer to pay anybody to get this contract increased, the price increased, or the number increased?

Mr. CRANOR. I never spoke to anybody except Mr. Hussey about that part of it at all. I told Mr. Hussey what to do, just as I have explained to you, because that occurred to me to be good business. It was nonsense to talk to anybody about paying anybody, unless it was somebody you wanted to serve for you as an attorney or something of that sort, any money to do anything there, because it could not be done, in my opinion. I never saw anybody down there who appeared to be dishonest or want any money, in an official sense. I do not think there was any necessity for anybody to offer or hold out any inducements to any public official to get business, because they were very anxious to place this business; we were in war, and they recognized the gravity of the situation, even the clerks, to my mind; and I think the sensible thing to do was to find out about what should be done, and then try to do it, and that is what I tried to do, and I talked to no one about it except Mr. Hussey; I had nothing to do with the obtaining of this, Mr. Hussey conducted it all. I simply told him what in my opinion was the right thing to do, and the right price and the number.

The CHAIRMAN. You thought that the sensible thing to do was to endeavor to get a contract for more tugs at a larger price?

Mr. CRANOR. I did.

The CHAIRMAN. Even though your company, prior to your going to Washington, had submitted a bid at a substantially lower price?

Mr. CRANOR. Yes, sir. That had nothing to do with my judgment in the matter, because I had nothing to do with that offer, and if I had I would not have suggested it being made at that price, because even then they were higher.

The CHAIRMAN. But you did not know, Mr. Cranor, whether the Providence Engineering Corporation, before submitting that bid, had figured the thing out and come to the conclusion that \$270,000 was a proper figure and would have assured them an adequate profit?

Mr. CRANOR. No, sir; I do not know what they did before that.

The CHAIRMAN. And you were simply guided in suggesting this larger figure by the information you had secured from Mr. Schwab's representative, that he was getting \$307,000?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. Well, why did you not suggest that the Providence company make their figure \$307,000?

Mr. CRANOR. I told Mr. Hussey that that was the price, but I said, "You are a new concern, never have manufactured tugs before, have not the reputation that Mr. Schwab has, and I do not know whether you can get the same price or not; but I would put it under \$300,000, say \$295,000." I took that into consideration, I believe, as you would

or any other man placing a piece of business; if you could place it with an old concern, well established, at a little bit more money, you would probably do it, as against a new concern not well known, though probably managed by well-known men in that business.

The CHAIRMAN. Have you had any controversy or difficulty with Mr. Tucker K. Sands?

Mr. CRANOR. No, sir.

The CHAIRMAN. Do you know of any reason, arising out of your relations with him, why he should charge that you came to Washington, met him, Mr. Sisler, and Mr. Bolling, and practically entered into a conspiracy to split \$40,000 as commissions to be paid upon Mr. Bolling and Mr. Sisler using their influence to get a contract for the Downey Corporation or the Providence Engineering Corporation?

Mr. CRANOR. No, sir; I do not know of any reason why any man should say anything like that, even if it was so; let alone when there is nothing to it.

The CHAIRMAN. You have got no explanation for that that occurs to you, arising out of your relations with Mr. Sands?

Mr. CRANOR. No, sir.

The CHAIRMAN. That is a pretty serious charge to make against you and these other gentlemen, is it not, Mr. Cranor?

Mr. CRANOR. Very loose talk, I should think.

The CHAIRMAN. Well, it was made to this committee under oath. And do you know when Mr. Sands was actually paid for this credit matter which you had arranged?

Mr. CRANOR. No, sir; I do not know anything about that.

The CHAIRMAN. Nor how it was paid?

Mr. CRANOR. No, sir.

The CHAIRMAN. Whether by notes or cash or check?

Mr. CRANOR. No, sir; I do not know a thing about it.

The CHAIRMAN. Did Mr. Downey ever talk to you about it afterwards?

Mr. CRANOR. Yes, sir; Mr. Downey spoke to me once about this, and he told me that Mr. Sands had only given him \$50,000 of the \$100,000 loan arranged under this underwriting, and he felt he should just pay him half of the fee agreed on. I told him that that was a matter that I fully agreed with him in, but it was a matter that was entirely in his hands; and I would be glad to speak to Mr. Sands about it if he wished, but he said no, he would prefer to talk it over with him himself.

The CHAIRMAN. How long after the arrangement was made did this take place?

Mr. CRANOR. Well, I reckon it was about August or September, or somewhere in the fall of 1918, but I don't remember the time.

The CHAIRMAN. Did he tell you that he had paid Mr. Sands at that time?

Mr. CRANOR. No, sir; he did not say he had paid him, but he said that that is all he felt he should pay him.

The CHAIRMAN. Half of the \$40,000?

Mr. CRANOR. Half; yes, sir; because he had only obtained a loan of \$50,000 from the bank.

The CHAIRMAN. And you never saw Mr. Sands about it?

Mr. CRANOR. No, sir.

The CHAIRMAN. And he never paid you back half or part of it?

Mr. CRANOR. No, sir.

The CHAIRMAN. Mr. Cranor, have you any objection to stepping aside just for a moment, to let Mr. New identify a record, and then we will recall you immediately.

TESTIMONY OF MR. T. ED. NEW—Recalled.

The CHAIRMAN. Mr. New, I hand you a report from Mr. George J. Strong, district auditor, under date of February 19, 1918, and ask you what that report it?

Mr. NEW. That is a report from the district auditor in response to our request for an investigation of the financial responsibility of the Providence Engineering Co., which was asked for the purpose of passing on their financial standing in connection with their bid for the construction of tugs.

The CHAIRMAN. This is the document I asked you last evening to furnish to the committee?

Mr. NEW. Yes, sir; this is the duplicate of it.

The CHAIRMAN. We will have that put into the record.

(The report reads as follows:)

UNITED STATES SHIPPING BOARD,
EMERGENCY FLEET CORPORATION,
Custom House, Boston, Mass., February 19, 1918.

General Auditor BENDER,

Washington:

1. In response to your telephonic instructions this office has made an examination of the affairs of the Providence Engineering Corporation, of Providence, R. I.

2. The company was organized in December, 1916, with an authorized capital stock of \$500,000. Mr. Wallace Downey, of Brooklyn, N. Y., who is said to be heavily interested in the Downey Shipbuilding Co., of Staten Island, N. Y., is the promoter of this company.

3. The records of the company at Providence, R. I., at the time of our examination showed that but \$300 par value of capital stock had been issued, and that the premises occupied were leased from Mr. W. Downey at an annual rental of \$12,200.

4. Mr. Vaughan, the treasurer, informed us that on February 12, 1918, the title to the plant was passed to the company by Mr. W. Downey who took capital stock in payment. He further stated that capital stock was to be issued to Mr. Downey in payment of advances made by him, as shown on the balance sheet herewith.

5. This plant was formerly devoted to the manufacture of shells for the Serbian Government, and at one time is said to have employed a thousand men. At the present time, however, only 30 men are employed. The assessed value of the plant on June 30, 1917, was \$172,940, of which about \$140,000 was on real estate. We were given to understand there is a mortgage on the real estate for \$150,000, which is due in about nine years, payable in equal annual installments.

6. During the year ended December 31, 1917, the company showed sales of \$81,000 of which \$14,000 represented the sale of an engine manufactured by them. The net loss from operations for the year was \$9,400.

7. It is understood that additional machinery will be required to carry out the proposed contracts pending. The treasurer states that probably a large part of the work on the first two engines in connection with contemplated contract with the Emergency Fleet Corporation will be let out to other shops. After that the company hopes to be fully equipped to carry out the work.

8. In order to properly pass upon the company's ability to carry out the contract it would be necessary to know the terms of the contract and how much money will be put into the enterprise for working capital and necessary additions.

9. Inasmuch as the company has been recently organized no credit relations have been established with any banks.

10. The balance sheet at January 31, 1918 and a list of directors and officers are inclosed.

GEORGE J. STRONG,
District Auditor.

BALANCE SHEET AS PER BOOKS, JAN. 31, 1918.

Assets and deficit.

Cash on deposit.....	\$8,490.14
Accounts receivable, considered collectible.....	7,617.25
Inventories:	
Eng ne parts, book value.....	\$9,791.88
O'd belting, book value.....	3,096.00
Work in process, book value.....	5,503.11
	<hr/>
	18,390.99
Deficit from operations.....	9,974.54
	<hr/>
Total.....	44,472.92

Liabilities and capital.

Capital stock, authorized \$500,000, issued.....	300.00
Accounts payable:	
Current accounts.....	\$2,086.76
Wallace Downey, advances.....	41,460.51
Wages payable, accrued.....	625.65
	<hr/>
	44,172.92
	<hr/>
Total.....	44,472.92

List of directors and officers.

Directors.—William E. Hussey, 194 Bainbridge Street, Brooklyn, N. Y.; William B. Dukeshire, 474 East Seventh Street, Brooklyn, N. Y.; Edgar R. Mead, 328 Sterling Place, Brooklyn, N. Y.

Officers.—President, William E. Hussey, Brooklyn, N. Y.; vice president, William B. Dukeshire, Brooklyn, N. Y.; secretary, Edgar R. Mead, Brooklyn, N. Y.; treasurer, Frank L. Vaughan, Providence, R. I.

TESTIMONY OF MR. JOHN M. CRANOR—Recalled.

The CHAIRMAN. When first, Mr. Cranor, did you hear that Mr. Sands was making this claim or contention that you had agreed, or Mr. Downey had agreed to pay \$40,000 for securing a contract?

Mr. CRANOR. Last Sunday morning a week ago, when I read the paper.

The CHAIRMAN. Read the head lines?

Mr. CRANOR. I got up Sunday morning a week ago, and I saw these head lines, and I read this article, you know, then that was the first time I had ever heard it.

The CHAIRMAN. Have you had anybody see you from the department of investigation of the Shipping Board, or the Department of Justice, about your dealings in behalf of the Downey Corporation?

Mr. CRANOR. No, sir.

The CHAIRMAN. Or about your arranging this credit?

Mr. CRANOR. No, sir.

The CHAIRMAN. Nobody had ever called to talk this matter over with you, from any branch of the Government or the Shipping Board?

Mr. CRANOR. No, sir.

The CHAIRMAN. Any questions, Mr. Kelley?

Mr. KELLEY. How did you happen to go to see Mr. Bolling about these bending rolls?

Mr. CRANOR. I didn't go to see him.

Mr. KELLEY. Didn't you hear his testimony yesterday where he says you did?

Mr. CRANOR. No, sir; I did not.

Mr. KELLEY. Early in 1918, Mr. Bolling testified, "about January Mr. Sands sent a Mr. Cranor to see me in regard to some machinery which was to be used in connection with the construction of some vessels. Mr. Cranor told me that the machinery in question was bending rolls, and was to have been shipped to his company from the factory, but at the last minute some other company had succeeded in having the order changed, and that this machinery would be diverted to them; that a great injustice was being done to Mr. Cranor's company, and it would mean a great delay as they were ready to put plates on several hulls and they could not do so without the bending rolls. I knew nothing about the construction division as I was in the division of operations, so in the presence of Mr. Cranor I called up Mr. Lester Sisler, who was then secretary of the Shipping Board, and explained the matter to him. He said he would look into it and subsequently told me that he found, upon inquiry, that the rolls had been promised to Mr. Cranor's company and would be shipped to him." That is what Mr. Bolling testified to yesterday. What do you say about the truth of that?

Mr. CRANOR. I think Mr. Bolling is mistaken about that. It is pretty hard to remember about things of that kind. But I don't remember talking to Mr. Bolling.

Mr. KELLEY. Do you remember going to see the Senator, all right?

Mr. CRANOR. Yes; I went up to see the Senator.

Mr. KELLEY. Now, if you went to see Bolling, you would remember that, wouldn't you?

Mr. CRANOR. Well, I might not, sir. I could not say. There are lots of things you forget.

Mr. KELLEY. Well, you don't swear that this is a false statement?

Mr. CRANOR. No; I do not swear what the other man is swearing to is false, but I don't remember. I don't remember about it. I don't know.

Mr. KELLEY. Now, he says that Sands sent you to him. You say that you never talked with Sands about these bending rolls at all?

Mr. CRANOR. Not that I remember of. I might have told Mr. Sands that I want to get these rolls out. I walked in the bank occasionally.

Mr. KELLEY. Didn't Sands give you his card and send you up to Bolling?

Mr. CRANOR. I don't think so. I don't remember anything about it.

Mr. KELLEY. Who would have jurisdiction over this sort of a question of sending the rolls?

Mr. CRANOR. Admiral Bowles.

Mr. KELLEY. Was Mr. Hussey—is that his name?

Mr. CRANOR. H-u-s-s-e-y, Hussey; yes.

Mr. KELLEY. Was he in Washington at the time?

Mr. CRANOR. Yes, sir.

Mr. KELLEY. Was he there all the time that you were there?

Mr. CRANOR. No, sir.

Mr. KELLEY. How did they happen to hire you to go down there?

Mr. CRANOR. Well, I knew Mr. Downey a little, and he was talking about getting a larger contract than they would make.

Mr. KELLEY. Why couldn't they get it; they had Mr. Hussey there all the time for them; why did they send you there?

Mr. CRANOR. You will have to ask him about that.

Mr. KELLEY. They must have told you why they were hiring you, didn't they?

Mr. CRANOR. They wanted to get this contract.

Mr. KELLEY. You didn't know anything about tugs or ships or anything of that kind, did you?

Mr. CRANOR. No, sir.

Mr. KELLEY. You didn't know anybody in Washington very much, did you?

Mr. CRANOR. No, sir.

Mr. KELLEY. What qualifications did you have, particularly for getting a contract for Downey?

Mr. CRANOR. That was a matter for him to judge and not me.

Mr. KELLEY. Was your compensation a commission or a salary?

Mr. CRANOR. Salary.

Mr. KELLEY. Was not there some commissions to be added in case you get the contract?

Mr. CRANOR. No, sir.

Mr. KELLEY. Were not you to get part of the increase on the cost of the tugs?

Mr. CRANOR. No, sir.

Mr. KELLEY. No commission whatever out of that?

Mr. CRANOR. No, sir.

Mr. KELLEY. Were not you to get a part of this \$40,000?

Mr. CRANOR. No, sir.

Mr. KELLEY. No part of that?

Mr. CRANOR. No, sir.

Mr. KELLEY. For helping get these credits?

Mr. CRANOR. No, sir.

Mr. KELLEY. All the work that you did for Downey down there you did on a flat salary basis?

Mr. CRANOR. Yes, sir.

Mr. KELLEY. And you have never received anything from them above your salary?

Mr. CRANOR. I never have.

Mr. KELLEY. And never have put in any claim for any more?

Mr. CRANOR. No, sir; as a matter of fact I have not received all of that.

Mr. KELLEY. Why not?

Mr. CRANOR. Well, it has just been put off on account of the non-payment of moneys.

Mr. KELLEY. How much do they owe you yet?

Mr. CRANOR. I think they owe me about a year's salary.

Mr. KELLEY. On what pay roll were you carried?

Mr. CRANOR. The Providence Engineering Co.

Mr. KELLEY. For how long a time?

Mr. CRANOR. During the life of the contract.

Mr. KELLEY. As long as the contract?

Mr. CRANOR. During the construction period.

Mr. KELLEY. That is not over yet, is it?

Mr. CRANOR. Yes; they delivered them in October, I believe.

Mr. KELLEY. So that your salary ended in October?

Mr. CRANOR. Yes, sir.

Mr. KELLEY. So you got paid for the year 1918 to March 14?

Mr. CRANOR. Yes.

Mr. KELLEY. The year 1919?

Mr. CRANOR. No; I have received my salary until October, 1919.

Mr. KELLEY. That is a year ago.

Mr. CRANOR. Yes; I have not received it since.

Mr. KELLEY. They have delivered these ships in October, 1919?

Mr. CRANOR. No, sir; this October.

Mr. KELLEY. Then you are entitled to another year's salary, aren't you?

Mr. CRANOR. I certainly am.

Mr. KELLEY. Well, that was a pretty good contract, to go down to Washington and you were to get a fixed salary as long as they were building ships?

Mr. CRANOR. I don't know about that.

Mr. KELLEY. Well, your actual service ended when you got through with the contract there, didn't it?

Mr. CRANOR. It might or might not.

Mr. KELLEY. I know, but did it?

Mr. CRANOR. No; not exactly.

Mr. KELLEY. Did you render them any services on this contract in any other way, after that time?

Mr. CRANOR. Getting things and materials of that kind; yes, sir.

Mr. KELLEY. You were not a skilled man; how could you get material?

Mr. CRANOR. I simply had to go and hustle up the departments.

Mr. KELLEY. Whom did you see about materials down there?

Mr. CRANOR. I saw the material department occasionally.

Mr. KELLEY. Whom?

Mr. CRANOR. Well, I don't know who it was.

Mr. KELLEY. Don't even know his name?

Mr. CRANOR. No; I do not.

Mr. KELLEY. What building was he located in?

Mr. CRANOR. I believe he was down at B Street.

Mr. KELLEY. What number?

Mr. CRANOR. I could not tell you that.

Mr. KELLEY. You would know the building and how to find the place again, if you came down there?

Mr. CRANOR. Yes; I could go to his place.

Mr. KELLEY. How many times did you go to this material department, hustling up material?

Mr. CRANOR. I didn't go there often.

Mr. KELLEY. Not very often?

Mr. CRANOR. No, sir.

Mr. KELLEY. Never went to see Mr. Hurley but once?

Mr. CRANOR. I don't think I did.

Mr. KELLEY. And you saw Mr. New but once?

Mr. CRANOR. That is all.

Mr. KELLEY. And you saw Mr. Bolling but once; and possibly not at all?

Mr. CRANOR. I saw Mr. Bolling, but not about any business; I saw him a time or two; just met him.

Mr. KELLEY. The fact is that you had absolutely nothing whatever to do with getting the contracts?

Mr. CRANOR. Well, I simply did what I told you about it.

Mr. KELLEY. But I say, you had nothing to do about getting the contract?

Mr. CRANOR. No; this is up to the Shipping Board.

Mr. KELLEY. The only service you rendered was through Sands?

Mr. CRANOR. I didn't see how I rendered any service in getting the contract through Mr. Sands.

Mr. KELLEY. I didn't say that.

Mr. CRANOR. I rendered a financial service through Sands.

Mr. KELLEY. I say you had nothing to do with the getting of the contract, did you? All you had to do was getting the credit?

Mr. CRANOR. That is practically all—the particular thing I did.

Mr. KELLEY. By helping get that credit, they agreed to put you on the pay roll and carry you there as long as they were building the ships?

Mr. CRANOR. Yes, sir.

Mr. KELLEY. You think that Mr. Sands is rather generous in not charging more than \$40,000 for this \$100,000 of credit, did you, Mr. Cranor; he might have charged more?

Mr. CRANOR. Well, I would not like to say it—put it that way. I think he got about what was right. I would not like to do it for less.

Mr. KELLEY. The loan of \$100,000, \$40,000 charged for it. How long was this loan made?

Mr. CRANOR. During the life of the contract.

Mr. KELLEY. Well, were they to keep a permanent credit of \$100,000, or \$125,000?

Mr. CRANOR. That was his obligation.

Mr. KELLEY. Oh, you don't mean that, that they could check out the first \$125,000 and there would be another \$125,000 put in its place?

Mr. CRANOR. I mean to say that Mr. Sands would be obligated to furnish Mr. Downey at all times \$125,000 during the life of the contract.

Mr. KELLEY. Well, now, Mr. Cranor, you know better than that. That Mr. Sands did not agree to keep \$125,000 for the credit of this company during all the time, no matter what they checked out.

Mr. CRANOR. Certainly not. But he agreed to keep them on a loan of \$125,000 during the life of the contract.

Mr. KELLEY. That there would always be \$125,000 there?

Mr. CRANOR. That is not what I am talking about; you must misunderstand it, or something. The way I understand it was that there was \$125,000 as a loan, or \$125,000 or \$100,000, whichever it was.

Mr. KELLEY. That is supposed to be a loan of \$125,000 to the credit of this company in the bank?

Mr. CRANOR. Yes.

Mr. KELLEY. Well, after they had checked it out, then what?

Mr. CRANOR. That is up to the company to put more there, if Mr. Sands——

Mr. KELLEY. What do you mean by saying that he agreed to keep \$125,000 credit there always during the life of the contract?

Mr. CRANOR. I didn't say that.

Mr. KELLEY. What did you say?

Mr. CRANOR. I said that he agreed to make the loan.

Mr. KELLEY. Of \$125,000?

Mr. CRANOR. A loan during the life of the contract.

Mr. KELLEY. A loan to run during the life of the contract?

Mr. CRANOR. Yes, sir.

Mr. KELLEY. And if the money was exhausted prior to the termination of the contract there was no obligation to loan more?

Mr. CRANOR. I would not take a loan of that character. A loan is not anything only what I have told you.

Mr. KELLEY. Then it was an agreement loan of \$125,000 for a specified period of time?

Mr. CRANOR. Yes, sir; no—not specified—subject to or during the life of the contract.

Mr. KELLEY. That is to say, they would credit them up with \$125,000 and leave that there during the life of the contract, unless they used it up before that?

Mr. CRANOR. Yes, sir; they had to carry him to that extent during the life of the contract.

Mr. KELLEY. Now, was it your understanding that they could use this money?

Mr. CRANOR. Why, certainly; I don't know what it was for unless working capital.

Mr. KELLEY. On the very day that Mr. Sands wrote this letter, didn't you know that he did not set aside any money to make any loans to these people?

Mr. CRANOR. I didn't know anything about only what he wrote on the piece of paper. I was not down there looking at that. I was down there getting this contract through.

Mr. KELLEY. You didn't care what he wrote, did you, so long as you got this contract?

Mr. CRANOR. I was concerned only in the financial end of it being satisfactory to the Shipping Board men.

Mr. KELLEY. Didn't care whether it was ever paid them or not?

Mr. CRANOR. I would not like to say that; I would not like to see a thing done wrong; I would want it to be done right, according to good business. You imply that I would not care how it was done, just so that it was done. That is asking something of me that you would not like to do yourself. You would not like to be a party to something that is not right, would you?

Mr. KELLEY. You must not imply anything at all from my questions.

Mr. CRANOR. Yes, I must; you must not ask me to join with them in doing what any good business man would not like to do, if you don't expect me to imply something from you.

Mr. KELLEY. All right. Now, as a matter of fact, do you know whether or not they did get any credit at this bank which they could use?

Mr. CRANOR. Mr. Downey told me that he obtained \$50,000—a loan of \$50,000.

Mr. KELLEY. Was not it put into the savings department, so he could not check it out?

Mr. CRANOR. I don't think so; I don't know.

Mr. KELLEY. Didn't Mr. Sands tell you that is what he would do?

Mr. CRANOR. No, sir; never. Never told me anything about that.

Mr. KELLEY. Was not that the agreement between you and Sands, that the money should be put in the savings department and not checked out? And it was strictly for the purpose of obtaining this credit?

Mr. CRANOR. No, sir.

Mr. KELLEY. Well, if Mr. Sands swears to that, he swears falsely.

Mr. CRANOR. If he swears that I arranged it that way, he certainly has a very bad memory, because I arranged nothing except a credit.

Mr. KELLEY. Now, what security did you arrange for this credit—that they should have for this credit?

Mr. CRANOR. I arranged that the bank there should have the deposit which they had received from the Shipping Board and have Mr. Downey's personal indorsement.

Mr. KELLEY. The deposit which they would receive from the Shipping Board. What security would that be if they could check it out?

Mr. CRANOR. Not any; but it was what would be handled by them.

Mr. KELLEY. Do you mean to say to us that they agreed to loan this \$100,000 without any security except these deposits which the Shipping Board would make at various times in payment?

Mr. CRANOR. No; they loaned it upon a note which the Providence Engineering Corporation would sign, and with Mr. Downey's personal indorsement on the note.

Mr. KELLEY. This bank was willing to do that and the Government was not?

Mr. CRANOR. Well, I would not like to say that; I would like to say that Mr. Sands, with a group of others, as he informed me, had agreed to do that, and that is what he charged for; and I think he is entitled to it.

Mr. KELLEY. Your testimony is that Mr. Sands agreed to loan \$125,000 or \$100,000—there is some dispute as to the amount—

Mr. CRANOR. Somewhere in that neighborhood.

Mr. KELLEY. And that there was no security for that loan proposed by you?

Mr. CRANOR. No, sir; nothing except what I have told you.

Mr. KELLEY. Except that they would deposit some more money in the bank after they made the first payment of \$285,000 from the Government?

Mr. CRANOR. No, no; I made the arrangement that Mr. Sands was to loan them up to \$100,000 or \$125,000, whichever it is, to run during the life of the contract.

Mr. KELLEY. Without security?

Mr. CRANOR. To be indorsed by Mr. Downey, and I also arranged that the deposits of the Providence Engineering Co. were to be

largely carried with his bank, except the checking account in Providence for the labor.

Mr. KELLEY. And were these deposits to be carried in the savings department?

Mr. CRANOR. I never heard of that before.

Mr. KELLEY. Well, did Mr. Sands protest that he was taking a good many chances in loaning \$125,000 to a concern that the Government thought was not in a position to carry out its contract and took no security for a loan except the statement from you that they would, if they ever had any money, put it in the bank?

Mr. CRANOR. Well, he told me that he did not—that he considered that a matter of that sort was worth more money than they were paying for it because he had to take a risk.

Mr. KELLEY. He took a big chance?

Mr. CRANOR. I would not say he took big chances; I would say he took a business man's chance with business men. I think any banker has to take a business man's chance with business men.

Mr. KELLEY. Did he tell you that he had done this; that he had taken this up with a number of contractors and they had agreed to make this loan on this contract?

Mr. CRANOR. No, sir; as I recall it, he told me he consulted some of his friends; that he had done a little underwriting business on the side.

Mr. KELLEY. It was not to be done by the bank at all?

Mr. CRANOR. That is my understanding; it was to be done with his friends.

Mr. KELLEY. Not the bank?

Mr. CRANOR. Not the bank; and he took about a week to give me an answer, as I recall, and wrote a personal letter to the auditing department, to Mr. New, guaranteeing to do it, which should confirm that view, I should think. I didn't know that the loan was to be made by his bank, of course; that was not a matter for my concern.

Mr. KELLEY. I thought you said that the security for the loan was the deposit in the bank; that the bank required that these deposits of the company should be made in the bank as security for the loan.

Mr. CRANOR. I think you are a little hard to understand—this situation—I mean one of us is far away from the other.

Mr. KELLEY. I may say this is a very difficult transaction for me; it has been all along, Mr. Cranor, I assure you.

Mr. CRANOR. To my mind, you got it mixed or I am mixed with you, one or the other.

Mr. KELLEY. Our minds do not quite meet.

Mr. CRANOR. No.

Mr. KELLEY. All right; let us see if we can get together on this, and see how this banker, a skilled-minded man would loan \$125,000 without security.

Mr. CRANOR. As I arranged it with Mr. Sands, and understood it, he was to get some friends to underwrite with him this loan of \$100,000 or \$125,000 during the life—constructive life of this contract—of the construction of ships, for which he thought he ought to have a little more money, but finally agreed on \$40,000; and after several days, I should say about a week, he wrote a letter to the auditing department that he would guarantee that much working capital.

It rocked along for a few days, and this contract was not granted to Mr. Hussey—I never went into the department to see about that, Mr. Hussey did that. He was there most of the time during that time and was stopping at the Raleigh Hotel, and Mr. Hussey reported to me several times that he had made no progress, and I finally went up and saw Mr. New, the auditor, and then it was that he asked for a letter signed by Mr. Sands, as cashier and vice president of the bank, for this loan, and Mr. Sands gave it. I assumed that if he gave it, he must have consulted the board of directors, although that is something I know nothing about.

Mr. KELLEY. That will be a matter between the Shipping Board and the bank.

Mr. CRANOR. Absolutely. Now, are we straight?

Mr. KELLEY. Well, I understand what you say, Mr. Cranor.

Mr. CRANOR. All right; that is the main thing.

Mr. KELLEY. And I don't imply anything by that; I simply understand——

Mr. CRANOR. My version of it?

Mr. KELLEY. Your version of it.

Mr. CRANOR. Yes, sir.

Mr. KELLEY. Well, now, after you got through with this transaction, what service did you render to the company after that?

Mr. CRANOR. Finishing this up?

Mr. KELLEY. Yes; and the rolls—the bending rolls.

Mr. CRANOR. Oh, I don't think I rendered them very much. I done little things that they wanted looked after—hunting up material that they needed from the department, punching them up a little bit, you might say, and little things like that is about all I done.

Mr. KELLEY. Your contract was that if you assisted in procuring this contract, and helped arrange the credit, that you would receive a salary as long as the contract was in force?

Mr. CRANOR. No, sir.

Mr. KELLEY. Just state what that was, will you?

Mr. CRANOR. My agreement just reads that I was to be assistant to the president, to assist him in whatever manner, way, shape, or form I could, and it goes on and mentions those matters——

The CHAIRMAN. Yes.

Mr. CRANOR. Which salary was to run during the life of these contracts.

Mr. KELLEY. What contracts?

Mr. CRANOR. I don't think there was any contracts mentioned; the Downey Shipbuilding Co. had a contract and the Providence Engineering Co. was hoping to get a contract.

Mr. KELLEY. Was not there some specific contract under consideration?

Mr. CRANOR. No, sir; no, sir.

Mr. KELLEY. And you were to draw pay as long as they had any contracts at all with the Government?

Mr. CRANOR. Yes, sir; as long as the contracts ran, I was to get my salary.

Mr. KELLEY. Either from the Downey Shipbuilding Co. or the Providence, either one?

Mr. CRANOR. Yes, sir; the same thing.

Mr. KELLEY. And you were carried on the pay roll of the engineering company?

Mr. CRANOR. Yes, sir; I was carried on both pay rolls—one part of the time and the other part of the time.

Mr. KELLEY. But never on both at the same time?

Mr. CRANOR. No, sir; sorry to say.

Mr. KELLEY. Well, they might properly come, I suppose, as divided expenses——

Mr. CRANOR. Well, that is for you to speculate on and not me, for I don't know.

Mr. KELLEY. I say, you might properly, and did, render services for both companies, didn't you?

Mr. CRANOR. Well, I reckon so; but I don't know how they arranged that.

Mr. KELLEY. But they might have properly divided and carried part of your salary on one pay roll and part on another?

Mr. CRANOR. I can not say; I don't know what they done.

Mr. KELLEY. But they didn't do that?

Mr. CRANOR. I don't know.

Mr. KELLEY. You know where your checks came from?

Mr. CRANOR. Yes; that is all I know.

Mr. KELLEY. How long did your checks come from the Providence Engineering Co.?

Mr. CRANOR. Well, I reckon they came from there about May or June in 1918 until October 1, 1919.

Mr. KELLEY. And before that time they came from the Downey Shipbuilding Co.?

Mr. CRANOR. Yes, sir.

Mr. KELLEY. And when you went down there you were not in the employ of the Providence Engineering Co., but the Downey Shipbuilding Co.?

Mr. CRANOR. Right! Right!

Mr. KELLEY. But you figured that these two concerns were practically controlled by Mr. Downey, anyhow, and your services overlapped more or less?

Mr. CRANOR. Well, I don't know that I made any particular figures, Mr.—your name?

Mr. KELLEY. Kelley. My name is Kelley.

Mr. CRANOR. Then, Mr. Kelley, I tried to get what I was asked to do.

Mr. KELLEY. By whom?

Mr. CRANOR. By Mr. Downey, on behalf of his company, and when he told me that he practically owned the Providence Engineering Co. I assumed that that was as much a part of my duty as the Downey Shipbuilding Co. was.

Mr. KELLEY. And you looked after both?

Mr. CRANOR. I looked after both.

Mr. KELLEY. How long did you stay in Washington?

Mr. CRANOR. I remained in Washington until the 27th of March, 1919.

Mr. KELLEY. About a year after this transaction?

Mr. CRANOR. Yes, about.

Mr. KELLEY. You didn't have very much to do?

Mr. CRANOR. No, sir.

Mr. KELLEY. You didn't get any more contracts?

Mr. CRANOR. No, sir. Mr. Downey asked me to keep myself—to keep posted as to the conditions, so that they could get a new contract, if they could get one at any time, and that is why he asked me to remain there. He thought, as both of us thought at the time, that the war was going to go on quite a while, and that he might get another contract for ships, and he asked me to remain in Washington.

Mr. KELLEY. You had an office, did you, down there?

Mr. CRANOR. No, sir.

Mr. KELLEY. Just a room at the hotel?

Mr. CRANOR. I had two rooms at the Willard Hotel.

Mr. KELLEY. Were you allowed any expense account?

Mr. CRANOR. Well, I was supposed to have my salary and expense account allowed, but it was not—I don't know, I have not received the expense account yet.

Mr. KELLEY. None at all?

Mr. CRANOR. Well, I received some of it, but I have no expense account from possibly June, or somewhere along there, in 1918, until the 1st of April, 1919.

Mr. KELLEY. You were allowed a lump sum for expenses, or were you required to put in a statement from time to time, stating what your expenses were?

Mr. CRANOR. Well, he just gave me a lump sum to use for expenses when I went down.

Mr. KELLEY. Entertainment and that kind of thing?

Mr. CRANOR. No.

Mr. KELLEY. Just your own expenses?

Mr. CRANOR. I didn't have any entertainment to do; it was unnecessary; only when some of your good-looking Congressmen liked to come over and have a drink with me; that would have been all right.

Mr. KELLEY. Practically a good deal of this time you were there?

Mr. CRANOR. I was there practically all of the time.

Mr. KELLEY. And Mr. Downey's attorney was there some of the time?

Mr. CRANOR. Oh, I don't reckon so; he came down occasionally. I reckon.

Mr. KELLEY. Mr. Hussey was there a good deal of the time?

Mr. CRANOR. Until the time that this contract was received; I don't reckon that he was there after that at all; I don't know.

Mr. KELLEY. Mr. Downey was there himself, some?

Mr. CRANOR. Well, mighty little; he came down but a time or two or three, up to the time of receiving this contract, and maybe a time or two afterwards, to my knowledge.

Mr. KELLEY. Did you represent any other corporation while you were in Washington?

Mr. CRANOR. No, sir.

Mr. KELLEY. Now, the other day, when you went to Washington, who sent for you?

Mr. CRANOR. Nobody.

Mr. KELLEY. Mr. Tweedale asked you to come down?

Mr. CRANOR. No, sir.

Mr. KELLEY. To whose office did you go when you went down there?

Mr. CRANOR. I went to the treasurer's office of the Shipping Board, Mr. Bolling's office.

Mr. KELLEY. Went to see Mr. Bolling right away?

Mr. CRANOR. I went up to Mr. Bolling's office, and Mr. Bolling was there and Mr. Tweedale, and Mr. New came in very shortly afterwards.

Mr. KELLEY. They were there waiting for you?

Mr. CRANOR. Yes, sir.

Mr. KELLEY. They knew you were coming?

Mr. CRANOR. I told them the night before that I was coming down.

Mr. KELLEY. You wired them that you were coming down?

Mr. CRANOR. No, sir; I told the office here to tell them over the wire that I was coming.

Mr. KELLEY. But there was not any request from them—that is, from that end of the line for you to come down?

Mr. CRANOR. No, sir.

Mr. KELLEY. And you made a statement there in the presence of the others as to just what your understanding of the transaction was?

Mr. CRANOR. I told them just about what I told you all.

Mr. KELLEY. Did you have quite a controversy with Mr. Sands, because you paid for these commissions—that is, these commissions were in notes instead of cash?

Mr. CRANOR. I never heard anything about it. He never spoke to me about it, and what Mr. Downey done, I don't know; I don't know what their controversy was.

Mr. KELLEY. The testimony is here, that he expected money and you told him that the notes would be all right and good, and to have no worry about them. So, you never talked to him about the notes at all?

Mr. CRANOR. No, sir; I never talked to him about the notes, I do not know what he and Mr. Downey talked about. I was not present and did not have anything to do about it.

Mr. KELLEY. But he never expressed any fear that perhaps these notes might not be paid to you?

Mr. CRANOR. No, sir; he never mentioned anything about notes to me. He told me he had received it in notes.

Mr. KELLEY. Oh, he told you that he received it in notes?

Mr. CRANOR. Yes.

Mr. KELLEY. Did he express some disappointment?

Mr. CRANOR. Well, I don't reckon so; I don't remember about it.

Mr. KELLEY. You agreed that he should have the \$10,000, didn't you?

Mr. CRANOR. No, sir, I didn't make any arrangements about that; I told him that he would have to arrange all that with Mr. Downey.

Mr. KELLEY. Where did Mr. Hurley send you, when you went to see him, or to whom did he send you?

Mr. CRANOR. Well, I don't think that he sent me any place. We chatted about this matter a little while, and I think he told me to see Mr. Piez later; I don't know but what he told me, might be that he was away, something like that; I don't remember.

Mr. KELLEY. Did you see Mr. Piez?

Mr. CRANOR. I saw Mr. Piez later.

Mr. KELLEY. Did he send you to somebody else?

Mr. CRANOR. I don't think so; I don't remember. I never was in the department but once or twice, never spoke to anybody but once or twice; Mr. Hussey did all that work.

Mr. KELLEY. Mr. Hussey was looking after the details of the contract?

Mr. CRANOR. Oh, yes, he attended to that; I never went in there but one or two times.

Mr. KELLEY. When you went down there, you did not know that your chief business would be arranging the credit?

Mr. CRANOR. No, sir, I didn't know anything about it; I thought his credits were all right; I didn't know anything about the Providence Engineering Co.'s business when I went down there: it was not mentioned to me.

Mr. KELLEY. Well, what was the idea of your going down?

Mr. CRANOR. I went down for the Downey Shipbuilding Co.

Mr. KELLEY. To help to get contracts?

Mr. CRANOR. Yes, sir.

Mr. KELLEY. Did Mr. Hussey say he was having trouble in getting them himself?

Mr. CRANOR. Yes, sir; Mr. Hussey told me that the Providence Engineering Co. might make a contract or two, when I came down there. Mr. Downey came down there one day and introduced me to him, and then he told me he was president of the Providence Engineering Co.—if he was president, I don't remember—but anyhow he was managing that affair, and that he wanted me to help Mr. Hussey get a contract for some tugs that they were bidding on.

Mr. KELLEY. Had he ever had any business transactions with you before?

Mr. CRANOR. Who, Mr. Hussey?

Mr. KELLEY. No, Mr. Downey.

Mr. CRANOR. No, sir.

Mr. KELLEY. Do you know who recommended you to him?

Mr. CRANOR. No, sir; I do not; I don't remember.

Mr. KELLEY. How long have you known him?

Mr. CRANOR. Well, I suppose I have known him for a year or two, but I don't just remember.

Mr. KELLEY. Were you here in New York?

Mr. CRANOR. Yes; very little, however.

Mr. KELLEY. How long have you lived in New York?

Mr. CRANOR. Well, I have been here a good deal for seven or eight years; all told, since 1910.

Mr. KELLEY. In answer to a question by Mr. Walsh, I think you stated that you thought this contract went through rather speedily.

Mr. CRANOR. Yes, sir.

Mr. KELLEY. Rather easily?

Mr. CRANOR. I think so.

Mr. KELLEY. I thought you went down because Mr. Hussey was having trouble?

Mr. CRANOR. I didn't know anything about that; I told you that I went down there for the Downey Shipbuilding Co., but I didn't know there was such a thing as the Providence Engineering Co. nor

Mr. Hussey either; I didn't know anything about that, and after I had been there a little while, why, Mr. Downey told me he owned this company and they had a bid in for these tugs, and they hadn't been getting any place with them.

Mr. KELLEY. They hadn't any other contracts except the one made in June or July the year before?

Mr. CRANOR. That is all.

Mr. KELLEY. Were not having any trouble with that, were they?

Mr. CRANOR. They were having a good deal of trouble with materials and other things.

Mr. KELLEY. You went down there rather to kind of help with the first contract rather than a second?

Mr. CRANOR. Yes; I went to try and help get some material, and one thing and another, through.

Mr. KELLEY. And, then, when the question of a second contract came up you were, of course, interested in helping that along also?

Mr. CRANOR. Yes, sir.

Mr. KELLEY. Your employment originally was with the idea of keeping things moving on the first contract?

Mr. CRANOR. Exactly, that is what I was to do; yes, sir.

Mr. KELLEY. Are you sure that these tugs that you spoke of, that were being built by the Schwab people, were the same size and type and everything——

Mr. CRANOR. Same identical thing.

Mr. KELLEY. As the ones you were bidding on?

Mr. CRANOR. Yes, they were standardized.

Mr. KELLEY. There were a great many changes made in these tugs afterwards, wasn't there?

Mr. CRANOR. Well, I believe that they asked for a number of them, if not all, to be turned into oil burners instead of coal burners. I think that change was made.

Mr. KELLEY. Well, you figured if it had not been for this letter of Mr. Sands, probably the contract would have been held up indefinitely?

Mr. CRANOR. I think that if the auditing department of the Shipping Board had not received that letter, or some other financial letter from a financial group, guaranteeing this working capital, that it probably would not have been granted at all.

Mr. KELLEY. Do you know whether Mr. Downey had to pay similar commissions for obtaining credit in connection with the Downey Shipbuilding Co.?

Mr. CRANOR. Well, Mr. Kelley, if he received any underwriting from bankers, he had to pay for them. If you have met a group of bankers that did not charge that way, I would like to get acquainted with them.

Mr. KELLEY. Your understanding is that it was the custom for bankers to require shipbuilding companies during the war to pay somewhere in the neighborhood of 40 per cent for establishing a credit of a shipbuilding company?

Mr. CRANOR. No, sir; I have not any understanding of that kind, Mr. Kelley. But I have been dealing with bankers for about 25 or 30 years myself, and my understanding is that they charge about all they can get generally to you on any business that you go into when

you need assistance; and the more you need assistance, generally, the more they charge. And you inferred that this was rather a heavy risk a bit ago, so I should think that the risk was not a great risk, for if it were it would have been more. That is my experience about obtaining financial assistance. I don't know what your's is, but that is mine, and I have had quite a bit of it to do.

Mr. KELLEY. Now, I am asking you whether you know, in the case of Mr. Downey's other corporation, the Downey Shipbuilding Co., whether or not any such similar commission had been paid?

Mr. CRANOR. Well, now, I don't know anything about it, Mr. Kelley. But I think that Mr. Downey said to me at this time, "Mr. Cranor, if you can possibly arrange this in Washington, I wish you would, because I had to pay rather a heavy charge for the underwriting here to the group of bankers, and I had to give them some stock besides"—I don't know what it was, and I don't know that my memory is correct about that, but I think that is what Downey told me.

Mr. KELLEY. When you told him this would be \$40,000 for the \$100,000 of credit, he thought that was as well as he could do in New York?

Mr. CRANOR. Well, he kicked like the devil about it, but, of course, he finally agreed to it, because if he had not thought it was as good as he could do, he would probably not have done it. That would be my idea.

Mr. KELLEY. Did he say the bankers in New York with whom he was doing business, would not furnish the credit at all?

Mr. CRANOR. Well, I don't know just what he said about it, but as well as I remember it, he told me he would have to pay a good, big attorney's fee and pay for an examination and all these kind of things, and then he would have a good, big banking fee to pay—that is my recollection of what it would cost him, and it would cost him a deal, which he wanted to obviate at that time because it seems to me, if my memory serves me correctly, that he could make this subcontract with the Keylei-Purdy Co., and maybe he was figuring with somebody else, some other parties were figuring on that—I am not sure of these things because it was not a matter I should charge my memory with at all, it was a matter of arranging things down there, but it runs in my memory that it was something of that kind and that was the reason, as I remember it. He asked me about it and I told him that the fee was fair.

Mr. KELLEY. There would not be anything wrong in your getting the assistance of Mr. Sands and paying him a commission for any other services?

Mr. CRANOR. What other services?

Mr. KELLEY. Such as helping him with the bending rolls; that would be a perfect legitimate transaction, wouldn't it? He was not a Government official at all?

Mr. CRANOR. Oh, no.

Mr. KELLEY. If he could help you in any way to get these bending rolls, even if you had to pay for it, there would be no objection to it?

Mr. CRANOR. I do not know that there would be, and I do not see why I should.

Mr. KELLEY. I know; but your testimony is that, so far as you know, he did not receive anything for the bending rolls?

Mr. CRANOR. Mr. Sands?

Mr. KELLEY. Yes.

Mr. CRANOR. Not as far as I know, I certainly would know about it if he did; not that I know of.

Mr. KELLEY. And that there was no \$1,000 ever paid, so far as you know?

Mr. CRANOR. No, sir.

Mr. KELLEY. To Mr. Sands for efficient help with the bending rolls?

Mr. CRANOR. No.

Mr. KELLEY. He did that just because you happened to mention that to him?

Mr. CRANOR. Well, he was very good about doing anything that he could, that you would ask him to do; telephone, or anything like that, and it may be that he spoke to him about something like that—I don't remember about that.

Mr. KELLEY. It was subsequent to the other arrangement, the contract? It was afterwards, wasn't it?

Mr. CRANOR. No; it was before, these bending rolls was the first thing.

Mr. KELLEY. They came up first?

Mr. CRANOR. They came up very early after I had gone down there.

Mr. KELLEY. You saw quite a good deal of Mr. Sands, of course, about the hotel there, both staying at the same hotel?

Mr. CRANOR. Well, not a great deal. I saw him occasionally.

Mr. KELLEY. Evenings?

Mr. CRANOR. Sometimes he phoned me and asked me to come down and sometimes I did and sometimes I did not.

Mr. KELLEY. Lunched together and had dinner together sometimes?

Mr. CRANOR. Well, perhaps a time or two, not much.

Mr. KELLEY. You were old acquaintances?

Mr. CRANOR. I have known Mr. Sands probably 30 years, and I dined with him a time or two, generally have dinner, I think.

Mr. KELLEY. You had not talked with him about this credit matter at all, about the time the contract was made?

Mr. CRANOR. I did not talk to him about it at all; I had to put the thing through quickly, I had to have the credit.

Mr. KELLEY. It was done quickly, was it?

Mr. CRANOR. Yes, sir.

Mr. KELLEY. Within a few days?

Mr. CRANOR. Done within a few days; and he also studied over the matter and worked over it about a week before he wrote this letter that he would do it, and then it was probably a few days later when he finally did give the bank letter.

Mr. KELLEY. And that is the end of your connection with the transaction?

Mr. CRANOR. Oh, yes; that is all I had to do with it.

The CHAIRMAN. Well, as a matter of fact, Mr. Cranor, what Mr. Sands did in furnishing this letter to the Shipping Board credit department did help the Providence Engineering Co. in getting this contract?

Mr. CRANOR. It absolutely gave them the contract; they had to have that letter or a similar letter from some financial group or institution to get it, as I understand it.

The CHAIRMAN. Now, when you understood that Mr. Sands was going to arrange for this credit amongst the group of his friends and himself—

Mr. CRANOR. Yes, sir.

Mr. CHAIRMAN. Had you agreed upon the commission that was to be paid him at that time?

Mr. CRANOR. Well, my recollection is that while we had not agreed we were very close together, somewhere near.

The CHAIRMAN. Now, when the credit department insisted that he send a letter signed as an officer of the bank did you have any discussion with Mr. Sands with reference to the fee paid or to be paid?

Mr. CRANOR. Oh, no, sir.

The CHAIRMAN. So that you did not know until Mr. New told you that the arrangement had been changed, and instead of Mr. Sands furnishing this credit personally, together with some of his friends, that he was furnishing it as an official of the bank, and that his friends were out of it?

Mr. CRANOR. No, sir; I didn't know anything about it until then.

The CHAIRMAN. And afterwards did you have any discussion with Mr. Sands or talk about to whom the fee should be paid—whether it should be paid to him or whether it should go to the bank?

Mr. CRANOR. No, sir; I never had any discussion about that.

The CHAIRMAN. My recollection is that in your previous testimony you stated that you paid Mr. Sands \$40,000?

Mr. CRANOR. No, sir—Mr. Downey.

The CHAIRMAN. If you did say that, it is a mistake?

Mr. CRANOR. It is a mistake.

The CHAIRMAN. You actually did not pay, but Mr. Downey paid it or had charge of paying it?

Mr. CRANOR. As to that, I was not present when that was done, and I didn't know how it was arranged, except by what was said to me afterwards.

The CHAIRMAN. Did you ever dine at the Willard Hotel with Mr. Bolling?

Mr. CRANOR. No; I don't think so.

The CHAIRMAN. Now, will you reflect upon that a moment and see whether you can recall ever having taken dinner one evening with Mr. Bolling yourself—you and him?

Mr. CRANOR. Well, I could not say as to that. It is possible, but I do not recall it. It might be that we did. I saw mighty little of Mr. Bolling—mighty little. And if we dined together it slipped my memory. I don't know. We might.

The CHAIRMAN. Did you see Mr. Bolling in his office at the Shipping Board upon any matter and then take dinner with him that same evening at the Willard Hotel?

Mr. CRANOR. No, sir.

The CHAIRMAN. You are sure of that?

Mr. CRANOR. Oh, yes; I am sure of that. I may have taken dinner with him at the Willard Hotel, but I did not see him at his office about anything.

The CHAIRMAN. Now, you are sure that you never saw him at his office and took dinner with him the same evening of the day that you saw him at his office at the Willard Hotel?

Mr. CRANOR. No; I would not say that, because I sometimes went over to his office and took him over a quart of liquor and put it in a drawer, and I may have been over there and done that—I don't know. I did that a time or two, sociably, but whether I did it that day or not I don't know.

The CHAIRMAN. That is, whether you did what that day?

Mr. CRANOR. Whether I carried over a bottle of liquor to him that day and then had dinner with him that evening, I don't know—I might. I don't remember anything about it.

The CHAIRMAN. Now, did you ever see him at his office on a business matter and then take dinner with him that same evening at the hotel?

Mr. CRANOR. I never talked business to Mr. Bolling in my life.

The CHAIRMAN. You are sure of that?

Mr. CRANOR. You bet.

The CHAIRMAN. Now, Mr. Bolling has testified, Mr. Cranor, that you came to see him about the bending rolls; that in your presence he called up Mr. Sisler, and that evening you and he dined at the Willard Hotel. What do you have to say about that?

Mr. CRANOR. Well, I think that he is mistaken. I don't know anything about that, and he may have spoken to Mr. Bolling and asked Mr. Bolling if he could assist me to get the rolls over that evening, or something; I don't know.

The CHAIRMAN. He may have?

Mr. CRANOR. As far as I am concerned, I never spoke to him about it in my life, that I remember. I—I—I was asked to go one afternoon over the phone, and I think that it was the second day after that that Mr. Cox told me that he had sent the order to the Downey plant for them. So that I don't think that I had any occasion or time to see anybody about it, because there was not much about it.

I went over and seen Senator Martin, and I think he had some one phone Admiral Bowles and asked him if there was some way that could be found for these rolls, because it was holding up the ships, and I think that he suggested that these two plants in the West were very close together and could roll with these bilge rolls out there—I think that was the conversation over the phone, if I remember, with Admiral Bowles in Philadelphia. I think the admiral said that he would arrange the matter if it was possible at all. I think he told the Senator that, and that was all there was about it. I may be mistaken; I may have forgotten something; I don't know, and I don't remember.

The CHAIRMAN. When you had this talk here the other day in Washington with Mr. Bolling, Mr. Tweedale, and Mr. New, was anything said there about your having taken up the bending-roll matter with Mr. Bolling?

Mr. CRANOR. No, sir.

The CHAIRMAN. Mr. Bolling never recalled it?

Mr. CRANOR. I don't recall it; I don't remember it. I was only with him a few minutes; simply told him my connection with arranging these finances, and what it was. And I went down because I

thought it was the duty to these gentlemen to place the facts before them as I knew them. I thought it was due everybody that the facts should be known, and I made a statement as to my connection with that to them.

The CHAIRMAN. Now, a few days ago Mr. Bolling gave a statement to the press in the presence of Admiral Benson and Col. Goff—by the way, do you know Col. Goff, of the Shipping Board?

Mr. CRANOR. No, sir; I do not.

The CHAIRMAN. In which he said—this is on November 20.

Mr. CRANOR. Yes.

The CHAIRMAN (reading):

Mr. Sands had always been my banker, and I had had various financial transactions with him. From time to time he curtailed that note. In the spring of 1918 he still owed about a little over \$6,000 on that note. At that time Mr. Sands introduced Mr. Cranor to me, asking that he get certain pieces of machinery, bending rolls they were, which the Fleet Corporation were to furnish the Downey Shipbuilding Co. in connection with the construction of vessels. He asked if I could help him have these bending rolls shipped to Downey. Some time after that Sands told me that he had received a fee for procuring these bending rolls from Downey and offered to divide it with me.

Now, do you recall whether Mr. Sands ever introduced you to Mr. Bolling?

Mr. CRANOR. No, sir; I don't recall. He might have done so in the office of the bank. The bank was on the corner, a rather congested place; he may have done so, but I don't remember of it.

The CHAIRMAN. But you knew Mr. Bolling, didn't you?

Mr. CRANOR. I knew the family a little, of course, and I think I knew Mr. Bolling, but he may have reintroduced him for all I know. I don't know.

The CHAIRMAN. You may have asked Mr. Bolling to help you with the bending-roll matter?

Mr. CRANOR. There may be some conversation there at the bank about it, because I was never in the office. And there might have been something about it. I could not tell you that; I don't recall it at all, but it is quite possible that if Mr. Sands had told me that Mr. Bolling was in a position to get the rolls I might have said to him, "We would like to have them," and I may have said that it was very important.

The CHAIRMAN. That may have taken place at the bank?

Mr. CRANOR. Yes; it may have.

The CHAIRMAN. Will you say that it did not take place in Mr. Bolling's office at the Shipping Board?

Mr. CRANOR. No, no, no; it did not take place there.

The CHAIRMAN. Sure of that?

Mr. CRANOR. Yes; I never was in the office, that I know of.

The CHAIRMAN. Never was in Mr. Bolling's office?

Mr. CRANOR. No; not at that time. I was there later, after all these—away in the summer, after this was over, I was in the office, but I was never in his office until in the spring, that I know of, because they moved their offices so fast, that you could not keep up with them down there, and I never had any occasion to go to his office.

The CHAIRMAN. Where did you have your personal bank account while in Washington?

Mr. CRANOR. At Mr. Sands's bank.

The CHAIRMAN. Commercial Bank?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. Have you had any controversy with Mr. Downey or dispute which has resulted in your not receiving any salary for the last year?

Mr. CRANOR. No, no; Mr. Hussey cut that off, as president of the Providence company, and I took it up with Mr. Downey and Mr. Downey told me that he was pretty short of cash because the Shipping Board owed him a great deal of money yet; he could not get his money, and he said "When all this business is over, I will adjust this matter with you."

The CHAIRMAN. Did you have a written contract, Mr. Cranor?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. Have you got a copy of that with you?

Mr. CRANOR. No, sir; it is a letter, just a letter signed by Mr. Downey.

The CHAIRMAN. Have you got that with you?

Mr. CRANOR. No, sir; it is a letter signed by Mr. Downey, I think.

The CHAIRMAN. Appointing you assistant to the president at a certain salary?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. To continue during the life of the contract?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. Were you paid monthly?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. Now, did you engage in any other business while in Washington as assistant to Mr. Downey?

Mr. CRANOR. No, sir.

The CHAIRMAN. You never entered into any syndicates or pools?

Mr. CRANOR. No, sir.

The CHAIRMAN. Transacting any other business?

Mr. CRANOR. No, sir. No, sir; I have told you that I introduced Mr. Sands in the financing of the Mount Vernon & Camp Humphreys Railroad to a Mr. Fiske, or some friend of his, and he financed that railroad, and on which he got \$10,000, and he said he would give me half of it if I would introduce him to somebody who would finance it; they financed it and he got his check.

The CHAIRMAN. Did you get half of it?

Mr. CRANOR. No, sir; I asked him for a little money from time to time. He told me that he was short of cash, and once in a while I got \$1,000 or \$500, until I got something like \$3,000.

The CHAIRMAN. You still feel that he owes you something?

Mr. CRANOR. Yes, sir.

The CHAIRMAN. Was that paid by check to you?

Mr. CRANOR. Well, I don't remember; I expect so. It might have been put to my credit or it may have been paid by check; I don't remember.

The CHAIRMAN. You still carry an account in the Commercial?

Mr. CRANOR. No; I have not any account there.

The CHAIRMAN. Do you remember just about what time that was. this financing of this railway?

Mr. CRANOR. Well, it was in the spring of 1918—I don't just remember—along in March, perhaps.

The CHAIRMAN. Along about the same time?

Mr. CRANOR. About the same time; yes. I think so; I don't think there is much difference in it. It rocked along for possibly a month or so; I don't remember about the time it was done. I didn't pay very much attention to it, because I didn't have anything to do with it other than that.

The CHAIRMAN. You say you arranged to advance them \$10,000?

Mr. CRANOR. No, sir; I say that they—the Washington Street Railway treasurer, or some official of that company—told Mr. Sands that he would give him \$10,000 to put him in connection with financiers that would finance the Mount Vernon & Camp Humphreys Railroad, a short line of 4 or 5 miles that would extend the street railway from Mount Vernon on down to Camp Humphreys; I think it is about 4 or 5 or 6 miles, at a cost of a quarter of a million dollars, or something of that kind. I think I offered to introduce him to some one, perhaps Mr. Pliny—I think possibly that was the man—and they financed it, and he said to me he would give me \$5,000, half of his fee.

The CHAIRMAN. Anything further, Mr. Kelley?

Mr. KELLEY. The credit which Mr. Sands agreed to place for the Providence Engineering Co., of \$100,000, was not, as I understand, Mr. Cranor, so important to the company because of any value it would be as a working capital, but that it was necessary to get the contract?

Mr. CRANOR. Well, no; I would not like to say that. My understanding was that it was necessary to have that money for working capital. I took that view of it from my personal experience in business. And I know that I would want working capital to pay my pay rolls, etc.

Mr. KELLEY. Didn't they get \$285,000 from the contract right away?

Mr. CRANOR. Yes, sir; but I would not like to take a defunct concern and walk into the Shipping Board and just ask them to give him a contract absolutely on nothing, if they were to give him a check of that magnitude, because that did not look very well.

Mr. KELLEY. Were you representing a defunct concern?

Mr. CRANOR. No, sir; but you see they were short of cash.

Mr. KELLEY. It was a defunct concern?

Mr. CRANOR. No, sir.

Mr. KELLEY. Was it in a good financial condition?

Mr. CRANOR. Well, it would be—I would not say that; no. I don't think it was. I don't think it was in good financial condition. If it was, it would have working capital.

Mr. KELLEY. You were trying to get a contract from the Government for a concern that, in your judgment, you did not think was able to carry out the contract?

Mr. CRANOR. No; not that.

Mr. KELLEY. Just what did you think you were trying to do?

Mr. CRANOR. I want to say that I think they had a very fine plant, officered by men able to carry out this kind of a contract, and with the necessary working capital in the treasury to carry on and take care of their pay rolls and incidentals incident to a contract of this magnitude.

Mr. KELLEY. It was not a very uncommon thing, was it, for the Government to assist concerns that had fine organizations and a good plant ready to do the work to the extent of \$100,000?

Mr. CRANOR. Well, you know, you have to find that out. I am not able to tell you just what the Government done all the time, because I was only in this matter.

Mr. KELLEY. What I am getting at is this, that the greatest service which was rendered was not the putting the money to the credit of the contractor but writing the letter to the Shipping Board that they would do so, and on the strength of that the contract was given?

Mr. CRANOR. Mr. Kelley, if you wrote a letter of that kind as a banker would you consider you were obligated to put that money up on call? Would you consider you were doing shyster business or would you consider that you were doing real business?

Mr. KELLEY. I am not answering any questions here to-day.

Mr. CRANOR. That is what you are asking me.

Mr. KELLEY. No; I do not think you understood me. I want you to tell us whether or not the service Mr. Downey was to receive was the use of this money or was the service which he received in the letter which enabled him to get the contract?

Mr. CRANOR. Mr. Kelley, does not your committee want the facts and not anything of that kind? Do you not want to know just what everybody believes the facts to be?

Mr. KELLEY. Yes.

Mr. CRANOR. Well, I believe them to be that Mr. Downey—the Providence Engineering Co.—needed \$100,000 in cash working capital to enable them to get along nicely. That is my belief; that is what I thought I was arranging. If there was any sinister motive in anybody's mind I do not know about it, Mr. Kelley.

Mr. KELLEY. No; I am not speaking of that. You testified that Mr. Downey thought that inasmuch as they put up only \$50,000 afterwards that the service was only worth half as much.

Mr. CRANOR. Would you not think that if you were to make an arrangement of that kind, or would not I?

Mr. KELLEY. I understood you to say that the chief value that Downey's stockholders would get out of this would be the contract itself. Now, having received the contract——

Mr. CRANOR (interposing). I should think that that had two phases, Mr. Kelley: One was a potential value. The fact that they did have the contract would enable them to finance it some place else, would it not? That is fair.

Mr. KELLEY. Did Mr. Hussey say to you that if they got the contract they could finance it and take care of it all right?

Mr. CRANOR. You mean without this money?

Mr. KELLEY. Without this money?

Mr. CRANOR. No, sir; he did not say anything of the kind to me.

Mr. KELLEY. You tried to get this contract without putting up this money, did you not?

Mr. CRANOR. I did not know that they were so short of cash at the time I was getting this contract.

Mr. KELLEY. I am asking you, as a matter of fact, you tried to get this contract from the Government without this credit?

Mr. CRANOR. I would not like to say I did that. I tried to get the contract all right. But I did not know the company was so short of working capital.

Mr. KELLEY. You were there to help get the contract?

Mr. CRANOR. Yes, sir.

Mr. KELLEY. And you did everything you could to get it without this credit?

Mr. CRANOR. I would not like to say that even. I was working to get the contract, but I did not know that the working capital of that concern was so low until it was called to my attention by Mr. New.

Mr. KELLEY. When you found out that the working capital was low, did you suggest to Mr. New that he ought to insist on this credit?

Mr. CRANOR. No. I never saw Mr. New but the one time, and I went up there to finish up the matter and learned that it was necessary to have that working capital to get it.

Mr. KELLEY. Did you ever suggest to anybody that those people ought to be required to strengthen their credit in this way before the contract should be granted?

Mr. CRANOR. I told Mr. Hussey that they would have to get this working capital, in my opinion, before it would be granted. I was trying to give what I assumed to be a decent view of it, and I said to him that that would be absolutely essential.

Mr. KELLEY. Having in mind the interests of the Shipping Board?

Mr. CRANOR. Well, yes; having that in mind—and also having in mind what my business experience had taught me—it was necessary to have those things arranged.

Mr. KELLEY. And that until that was done you did not crowd very hard on getting the contract for them?

Mr. CRANOR. I crowded getting it all right, so that it would be done simultaneously.

Mr. KELLEY. But you did not insist at all with anybody that this contract should be entered into until this credit should be established?

Mr. CRANOR. No; I did not.

Mr. KELLEY. Do you mean to say that you did not suggest to somebody that this credit could be had, and that it ought to be, before the contract was given—besides Hussey?

Mr. CRANOR. No; I do not think I discussed it with anybody except Hussey, and perhaps Mr. Downey a little bit.

Mr. KELLEY. I mean anybody connected with the Shipping Board?

Mr. CRANOR. Oh, no. I did not know anybody up there; I just met Mr. Hurley once and Mr. Piez once, or perhaps twice; and I did not know anybody to discuss it with and knew no reason why I should discuss it with them.

Mr. KELLEY. But you kept impressing upon Mr. Downey and Mr. Hussey the reasonableness of the demand of the Shipping Board in this respect?

Mr. CRANOR. I told them that the board's request was perfectly just.

Mr. KELLEY. And that the credit ought to be arranged and that you could arrange it?

Mr. CRANOR. Yes, sir; I told them I thought it would be arranged.

Mr. KELLEY. But that it would cost \$40,000?

Mr. CRANOR. Yes, sir; I told them that.

Mr. KELLEY. Did you know any of the officers of the Fleet Corporation here in New York?

Mr. CRANOR. No, sir.

Mr. KELLEY. Did you know Mr. Bookwalter?

Mr. CRANOR. No, sir.

TESTIMONY OF MR. LESTER SISLER—Resumed.

Mr. KELLEY. There are just a few questions, Mr. Chairman, that I want to ask Mr. Sisler this morning, and I thought there were some files which I wanted to see that were here in New York, and I discovered they are in Washington; and some other time, if we wanted to call you back, I suppose we could?

Mr. SISLER. I would be glad to come back at any time.

Mr. KELLEY. In answer to a question of Mr. Walsh yesterday you said something that I did not quite get about Mr. Sands possibly thinking you were a silent partner of his. What did you mean by that, if you remember the reply?

Mr. SISLER. I do not recollect the question now, but I think perhaps I had in mind that inasmuch as he was apparently engaged in philanthropic work in remembering his friends, that he likewise considered me in the coterie.

Mr. KELLEY. Oh, he was engaged in philanthropic work of remembering his friends?

Mr. SISLER. Apparently so, according to Mr. Sands's testimony. I am only confining my remarks to his allegations.

Mr. KELLEY. As a matter of fact, was he in the habit of remembering his friends?

Mr. SISLER. I would take that to be so from his testimony.

Mr. KELLEY. Was he in the habit of remembering friends who had business connections that would bring money to the bank directly in the way of deposits?

Mr. SISLER. That I could not answer. I know that one of the inducements that I offered Mr. Sands, in seeking his financial assistance for the sand and gravel company was that I not only would keep my personal account there—which was not very large—but I hoped that the sand and gravel company's account would be more liberal to the bank.

Mr. KELLEY. And you also suggested that probably the Shipping Board funds would be kept there, did you not?

Mr. SISLER. No; I did not; that was entirely out of my bailiwick.

Mr. KELLEY. You were secretary of the Shipping Board and knew the treasurer well, did you not?

Mr. SISLER. No; I had made a recommendation to the board, and, as a matter of fact, one or two banks of Washington had received rather large deposits. Quite a few letters were addressed to the board which came over my desk for the preparation of the docket, seeking deposits in their banks.

Mr. KELLEY. What banks were they, Mr. Sisler?

Mr. SISLER. I think the Continental Trust Co. was one; the Metropolitan was another.

Mr. KELLEY. The Metropolitan is one of the banks where you did business, was it not?

Mr. SISLER. No; the American National.

Mr. KELLEY. You had some financial transactions through the Metropolitan?

Mr. SISLER. No.

Mr. KELLEY. I thought you mentioned that bank yesterday?

Mr. SISLER. No; never with the Metropolitan.

Mr. KELLEY. But those banks were asking for deposits? Do you remember where the money was kept at that time?

Mr. SISLER. We had several depositories; we had deposits in perhaps four or five banks at that time—I think the District National, the Commercial and the Riggs, if I am not mistaken, was another instance; and I am not certain whether it was the Munsey Trust or the National Safe Deposit. They were paying the board at the time or the Government, I think, 2 per cent or $2\frac{1}{2}$ per cent, and some of the other banks offered a better inducement—I think one-half of a per cent more.

Mr. KELLEY. Now, you feel quite sure that in discussing the question of extending you credit and the new company you were organizing, the sand and gravel company, that you did not say anything at all to Mr. Sands about using your influence to continue large deposits of Government funds in his bank?

Mr. SISLER. I have no recollection of ever having discussed the matter with Mr. Sands. We already had a deposit, and I think the less they said about it the better, because, in my opinion, it was too large for any institution, and I think the less the Commercial or any of its officials had to say about it the better.

Mr. KELLEY. At the time you drew that check——

Mr. SISLER (interposing). Which check?

Mr. KELLEY. On the Commercial National, when you did not have funds to cover it.

Mr. SISLER. Payable to the American Bank?

Mr. KELLEY. Have you had time to think since yesterday whether that was while Mr. Sands was in the bank or not?

Mr. SISLER. That is my recollection.

Mr. KELLEY. You have thought about it probably some since, and you still are of the opinion it was before he severed his connections?

Mr. SISLER. That is still my opinion; yes, sir.

Mr. KELLEY. Did you say to Mr. Sands at that time, "Mr. Sands, the Government account is too large in your bank"?

Mr. SISLER. I never referred to the Government account in any instance.

Mr. KELLEY. "And unless you take care of that check, I will recommend that the Government reduce its account in your bank?"

Mr. SISLER. That would have been futile, because Mr. Sands knew very well I had no such authority. My recommendation would have been of no avail.

Mr. KELLEY. Who was treasurer at that very time?

Mr. SISLER. I am not certain whether Mr. Stevens was then acting treasurer, or whether he had been succeeded by Mr. George T. Smith. It was in the incumbency of either one of those officers.

Mr. KELLEY. When did Mr. Bolling go in as assistant treasurer?

Mr. SISLER. I am not certain; I think it was in the middle of 1918 or 1917.

Mr. KELLEY. Do you remember whether or not you ever told Mr. Sands you thought there was too much Government money in his bank?

Mr. SISLER. I have no such recollections.

Mr. KELLEY. And the fact that there was or was not money there had nothing to do with Sands's willingness to pay this check of yours, so far as you know?

Mr. SISLER. So far as I know. I would not say that that was a fact, as I stated yesterday. He may have felt that I had more authority than I did, and may have felt that it was policy not to have any difficulties with me.

Mr. KELLEY. You were the secretary of the Shipping Board and he had \$4,000,000 of the Shipping Board's money?

Mr. SISLER. Which was the largest account that that bank had ever had.

Mr. KELLEY. He might say, "Here, if I do not do this, Mr. Sisler may use his influence to take \$1,000,000, \$2,000,000, or \$3,000,000 out of my bank and cause serious banking trouble." He might have thought that.

Mr. SISLER. I am not qualified to say what his thoughts were, but it is highly possible that that would have occurred to him.

Mr. KELLEY. Did that occur to you that it might have occurred to him?

Mr. SISLER. It did not. My transaction had nothing to do with the Shipping Board.

Mr. KELLEY. Suppose he had not honored the check, it would have just come back protested, and that would have been the shortest way out of it?

Mr. SISLER. I had explained to two assistant cashiers that Mr. Sands owed me this money, and that if the check was not honored not to send it to protest, but just to "kill" the check.

Mr. KELLEY. That is to say, it would come back——

Mr. SISLER (interposing). Come back marked "Not sufficient funds."

Mr. KELLEY. And that would have been all there was to it?

Mr. SISLER. That would have been all there was to it, because I explained to the officials of the American National when I drew the check.

Mr. KELLEY. That it was to force payment of an unsettled account?

Mr. SISLER. I having gone to Sands several times seeking a payment and was unsuccessful in those attempts.

Mr. KELLEY. Why do you think he actually paid it?

Mr. SISLER. Because he owed me the money.

Mr. KELLEY. He could have paid it in a proper way by handing it to you?

Mr. SISLER. I stated that I had gone to him on numerous occasions seeking the payment of something on account, and I was put off from day to day, he stating that he was short of funds; that they had not liquidated the entire transaction, and that until they did so I ought not to press him for payment.

Mr. KELLEY. How would it have injured Mr. Sands's standing in any way if he had simply called you up and said, "Your check is over here, and you have not money enough, and I have not the money to pay you now, and it will have to be returned?"

Mr. SISLER. I do not think it would have injured him at all.

Mr. KELLEY. Why do you think he did not do it, as long as he was short of funds and it would embarrass him to take care of it?

Mr. SISLER. I had made it very plain to him that I needed the cash to make certain payments for machinery which I had ordered for the sand company; that it put me in a very embarrassing financial position unless that payment was made.

Mr. KELLEY. Had you any knowledge at the time of any violations of the national banking law on the part of Mr. Sands in connection with his bank?

Mr. SISLER. Whether it was prior to that time I will not say. My only knowledge of it was through the press at that time.

Mr. KELLEY. You did not know at the time you put this check through of any transaction of Mr. Sands which was a clear violation of the banking laws?

Mr. SISLER. That, as I stated last evening, I am not certain whether it was prior to his difficulties or subsequent thereto.

Mr. KELLEY. There was not any talk about that, in connection with the payment of the check, was there?

Mr. SISLER. None whatever. Mr. Sands came to me afterwards, and asked me to intercede in his behalf.

Mr. KELLEY. Have you any knowledge of any transactions except the one upon which he was indicted which were violations of the banking laws?

Mr. SISLER. No, I have not.

Mr. KELLEY. Was there any particular class of business that Mr. Sands was engaged in which was not good banking business, and which, if known, would do him a good deal of damage and damage the bank, and that you had knowledge of at the time?

Mr. SISLER. I am not qualified to state that other than through rumors. I knew most of the banking officials in Washington, having, as I stated last evening, lived there all my life. I know all of the present officials of the Commercial and the present cashier of the Commercial. In fact, he was in my wedding party. So I knew him very well; and it was just through, I should say, discussions with those gentlemen as to Sands's difficulties. I think he was perhaps criticized by his board of directors for having engaged more in private endeavor than he was on behalf of the bank. I think he must have been engaged in hundreds of enterprises.

Mr. KELLEY. "Hundreds," you think, Mr. Sisler?

Mr. SISLER. I imagine so—in his tenure of office with that bank. By "enterprises" I mean financial schemes to promote various companies.

Mr. KELLEY. Some of them were rather get-rich-quick concerns?

Mr. SISLER. I would not say that. I think the investment at Camp Humphries was a rather hazardous one.

Mr. KELLEY. Was that the railroad investment?

Mr. SISLER. Yes.

Mr. KELLEY. He put up the money for that, did he not?

Mr. SISLER. I understood at the time that he was interested in some railroad down in Virginia that connects with the camp.

Mr. KELLEY. Tell us what you know about the financing of that railroad?

Mr. SISLER. I am not familiar with any of the details at all.

Mr. KELLEY. You say it was not a good business venture, so you must know something about it?

Mr. SISLER. I did not consider it as such. I was very familiar with that territory; and the life of the railroad, in my opinion, would be contingent on the remaining of Camp Humphries at its present location. There were quite a few marines and troops there, and it would pay very well as long as those troops remained there, and their families; but if the war ended and those troops were withdrawn the service would drop off accordingly.

Mr. KELLEY. Did Mr. Sands become a stockholder and director in that railroad?

Mr. SISLER. That I do not know.

Mr. KELLEY. What connection did he have with the project?

Mr. SISLER. Of my personal knowledge, I could not state, Mr. Kelley; and all I knew, as I say, was through friends of Mr. Sands and others that he was interested in the enterprise. I assume he may have been a director of the company; but whether he would have considered it ethical to be a director of the company at the same time with the bank I am not certain.

Mr. KELLEY. Do you know how many miles of railroad that consisted of?

Mr. SISLER. It is about 5 or 6 miles from Mount Vernon to Camp Humphries over the road.

Mr. KELLEY. What would it have cost to build that road?

Mr. SISLER. For construction of that character I would not say that it would cost over \$150,000.

Mr. KELLEY. About \$30,000 a mile?

Mr. SISLER. Not over that, although rails at that time were rather high. They may have bought secondhand rails.

Mr. KELLEY. It was an expensive time to build a railroad. Was that built by the street car company of Washington? What is the name of that?

Mr. SISLER. The Washington Railway & Electric?

Mr. KELLEY. Yes.

Mr. SISLER. That I do not know; it is possible.

Mr. KELLEY. Which is the Washington Railway & Electric line—the one that runs from Washington to Alexandria and Mount Vernon?

Mr. SISLER. No; I do not think there is any affiliation at the present time between those two. It is the Virginia Railway and the Washington & Old Dominion, I think.

Mr. KELLEY. Where is the Washington—

Mr. SISLER (interposing). The Washington Railway & Electric Co. is located within the District of Columbia and runs lines to Georgetown and Takoma Park.

Mr. KELLEY. That is the black car line—that is to say, the dark cars?

Mr. SISLER. Yes. The Capital Traction has the green cars and runs on Pennsylvania Avenue.

Mr. KELLEY. And the dark cars are operated by the line you are speaking of?

Mr. SISLER. Yes.

Mr. KELLEY. And they are the ones who were building this line from Alexandria?

Mr. SISLER. That I do not know, whether it was the Washington Railway & Electric or another railway was interested in it.

Mr. KELLEY. They did not have the line from Washington to Mount Vernon, did they?

Mr. SISLER. No. As I stated, I do not think they were affiliated. They may have been originally, but the two separate and distinct lines running down that way were the Washington & Old Dominion.

Mr. KELLEY. It is possible that the Washington Railway & Electric line might have wanted to build that extension down there. Was that your understanding of it, that they were the ones that were interested in building it?

Mr. SISLER. No; it was not. I am not qualified to state who it was.

Mr. KELLEY. Did Mr. Sands ever tell you that he got a commission of \$10,000 for getting the money to build that?

Mr. SISLER. No; he never mentioned his commission, or whatever he may have gotten out of it. I had no interest in the company myself.

Mr. KELLEY. Your impression was that if he put any money in there, it would be subject to more or less criticism from a banking point of view?

Mr. SISLER. Ordinarily banking officials object to their associates being engaged in private endeavor to the extent that it might interfere with the ethics of banking.

Mr. KELLEY. What do you know, Mr. Sisler, as a business man and as secretary of the Shipping Board about this practice of charging large commissions for establishing credits of corporations doing business with the Shipping Board?

Mr. SISLER. Well, I could testify more particularly since my severance of relations with the board rather than there.

Mr. KELLEY. Yes.

Mr. SISLER. Although while there I understood from quite a few of those seeking contracts in Washington that the board was making rather strenuous demands upon them from a monetary standpoint—that is, they would have a fully equipped yard, perfectly capable of carrying out a contract that they were negotiating, and with the assistance of the Government such as had been afforded other companies, that if they were likewise given similar treatment on behalf of the board that they would not be forced to tie up their capital in making large payments for fictitious credits.

Mr. KELLEY. In your time there, do you have in mind instances which you thought were examples of favoritism, where some people could get working capital and others, similarly situated, or even better—

Mr. SISLER (interposing). There were hundreds of cases, Mr. Kelley, where the board and the trustees of the fleet were daily considering advances to companies, both coincident with the seeking of contracts, the laying of the keel, and with the progress of the work. A great many of the companies which had tied up their capital in ordering equipment would find themselves short of that equipment because somebody had used the powers of converting that particular equipment to some other company, but I think the company was

besieged more particularly in that regard for months than in any other.

The records of the board unquestionably will show by thousands of letters where a shipment had been diverted from the original companies that ordered it. That was brought about in some instances by the unfortunate placing of contracts many miles from a particular shipping yard and in the interest of the whole service the board diverted, in many instances, equipment to a company located within the immediate vicinity of that particular plant, and it then exerted efforts to have the company which had ordered the material originally to order from the near-by plant.

Mr. KELLEY. Your statement is to the effect that the exigencies of the case created hardships?

Mr. SISLER. Yes.

Mr. KELLEY. And not that there was an intention anywhere to create hardships or favorite situations.

Mr. SISLER. In individual cases it doubtless created in the minds of certain contractors a hardship. Taking the service as a whole, I do not know but what the policy was a wise one; at least, the board felt it was at the time.

Mr. KELLEY. What I am saying is that the policy, whatever it was, and the hardships, whatever they were, those hardships were the result of the policy and not a desire to cripple any particular person or corporation?

Mr. SISLER. That is what I meant to convey.

Mr. KELLEY. You were going on to say about this commission that you had information concerning since you left the board as to what the practice of banks was.

Mr. SISLER. I have not been called on in negotiating loans directly with banks to pay exorbitant commissions. But if I went to banking individuals in their private capacity, I usually had to split the profits on any deal. If I needed \$100,000, and there was \$60,000 profit to be made, I would have to pay at least \$30,000 to get a credit of perhaps 10 days of \$100,000.

Mr. KELLEY. That would be done by the individuals and in the individual name, and the bank would not appear?

Mr. SISLER. No; the bank would never appear as such.

Mr. KELLEY. But would the money come from the bank?

Mr. SISLER. Well, it would be put up in their private capacities, I should think.

Mr. KELLEY. They would make arrangements with the bank and the money would be loaned in a private way?

Mr. SISLER. You can take a coal credit to-day, we will say, for \$500,000, and there is the necessity of putting up a bond of \$100,000; and you will doubtless, if you have not the securities with which you can get that bond, may be for \$50,000 securities you will have to pay one-half of the entire profits of your contract.

Mr. KELLEY. Where a concern is well off in a material way, has a good yard and a good plant, a good organization but not much capital, what was the policy of the board as to helping them along with working capital while you were there?

Mr. SISLER. The policy of the board, I should say, was—or the credit department—to satisfy itself that the particular yard or com-

tractor would at least meet the monthly pay roll and be able to pay in part for equipment ordered, and I take it that it depended entirely on the size of the contract. If a small company was seeking a contract for one or two boats, and had a thoroughly equipped yard, a good location, why, depending on the reputability of the individuals behind it, of course, and their standing as ship constructors, the board was not as stringent in asking them to issue large credits as they would have been otherwise. But ordinarily the credit department had to satisfy itself that a company was sufficiently strong from a financial standpoint to carry itself through without too much assistance from the board, and that it was by reason of the progress payments that would practically keep them abreast at all times with the material they had ordered, together with their pay rolls. That was known as "progress payments."

Mr. KELLEY. When you first went with the board, Mr. Denman was the chairman?

Mr. SISLER. Yes, sir.

Mr. KELLEY. Then, you must have been there right at the beginning.

Mr. SISLER. Practically at the beginning. The board had been organized, but that was coincident with the incumbency of Gen. Goethals. Contracts up to that time were mostly in the state of negotiation.

Mr. KELLEY. You never had any trouble with Mr. Denman during his term?

Mr. SISLER. None whatever.

Mr. KELLEY. Who succeeded Mr. Denman?

Mr. SISLER. Mr. Hurley succeeded Denman as chairman.

Mr. KELLEY. Did you get along well with Mr. Hurley?

Mr. SISLER. I did not.

Mr. KELLEY. And those differences resulted in your finally leaving the service?

Mr. SISLER. Oh, I had contemplated leaving the service coincident with the signing of the armistice.

Mr. KELLEY. So that the time had come when your services could be dispensed with, so far as the war was concerned, and you got out?

Mr. SISLER. I was very seriously ill with influenza when I resigned. The doctors told me not to do a thing for six or eight months. I was on my back when I did resign—in bed.

Mr. KELLEY. And these advances were made at the beginning, under the contracts, I think the contracts read that whenever the contractor could show that he had placed orders for supplies—material—he was entitled to draw the first installment under his contract, whenever he had obligated himself to that extent he was entitled to draw the money.

Mr. SISLER. Not necessarily so. If they could convince the board that payments should be made, the board——

Mr. KELLEY. Just a moment. Let us see if we get that straight. That whenever the contractor could show that he had obligated himself for material and equipment and all that, he was entitled to draw that 10 per cent or whatever it was on the first installment. Was not that the way those contracts read?

Mr. SISLER. There was no uniform system of contracts.

Mr. KELLEY. Was not that the practice under those contracts at the beginning?

Mr. SISLER. No; the practice was very inconsistent.

Mr. KELLEY. Different with different people?

Mr. SISLER. Yes; they tried to adhere to a certain policy, but it was impossible.

Mr. KELLEY. Do you remember the case of Phillip Sloane, of Seattle or Olympia, in the State of Washington?

Mr. SISLER. I have no particular recollection of it now. The chances are I may have had at that time.

Mr. KELLEY. Do you know whether or not he was given a check for \$800,000 after he had obligated himself by placing contracts with his brother or somebody.

Mr. SISLER. No; I have no——

Mr. KELLEY (interposing). Who had no financial connection much.

Mr. SISLER. I have no recollection of that instance. It may have been so.

Mr. KELLEY. Do you know whether or not the Shipping Board ever gave Phillip \$800,000 in one check?

Mr. SISLER. No, sir.

Mr. KELLEY. And that he had it photographed in the Seattle papers as an advertisement to everybody who wanted to come and do business with him?

Mr. SISLER. I was not familiar with that instance.

Mr. KELLEY. Did not that ever come to you as secretary of the board?

Mr. SISLER. That is possible.

Mr. KELLEY. Did you not ever hear the members of the board discussing the Phillip Sloane case?

Mr. SISLER. That is highly possible.

Mr. KELLEY. It is very likely, is it not?

Mr. SISLER. If it was during my term of office, yes; because I attended all board meetings.

Mr. KELLEY. You remember about the Phillip Sloane matter, do you not?

Mr. SISLER. I have a very faint recollection.

Mr. KELLEY. The name sounds familiar, does it?

Mr. SISLER. Very familiar.

Mr. KELLEY. Did you know Mr. Radford?

Mr. SISLER. Yes, contract manager; yes.

Mr. KELLEY. How long was he contract manager?

Mr. SISLER. I should say six or eight months.

Mr. KELLEY. Did he go into the shipping business after he left the contract manager's position?

Mr. SISLER. Most of those who left the board went into shipbuilding and ship-operating business. But I have no personal knowledge as to Mr. Radford's present connections.

Mr. KELLEY. You do not know where he went?

Mr. SISLER. No.

Mr. KELLEY. You have not heard so that you could say?

Mr. SISLER. No; I have not.

Mr. KELLEY. Do you know how long Mr. Radford continued there as the head of the contract division?

Mr. SISLER. Six or eight months, to my recollection.

Mr. KELLEY. Was he a shipbuilder or a lawyer?

Mr. SISLER. Most of the contract managers were lawyers. I am rather under the impression that he was likewise.

Mr. KELLEY. I suppose that was because of the necessity of simply putting the agreement into a proper form?

Mr. SISLER. No; not necessarily so, because we had a legal department that whipped the contracts into shape from a legal standpoint, and my own impression was that we should have had a man familiar with the ship-construction business as the contract manager and not as an attorney.

Mr. KELLEY. During that time as secretary of the board, did we ever have such a man as contract manager?

Mr. SISLER. I do not believe we ever had one occupying that title who had had previous shipping experience.

Mr. KELLEY. So that his information as to how the contracts should be awarded to protect the Government against one sort of practice or another, which a practical man would understand, he would have to get from somebody else.

Mr. SISLER. Unless he had had that experience in negotiating contracts prior to his coming with the board.

Mr. KELLEY. I suppose, as secretary of the board, you attended all the board meetings?

Mr. SISLER. I called all the meetings of the board.

Mr. KELLEY. And was present at the discussion of all matters, and I suppose that the people who came to Washington to get contracts knew that pretty well?

Mr. SISLER. Yes; because they would attempt to interview the members of the board, and not finding any members of the board in their respective offices, they usually would find their way to my office, knowing I was with the board likewise.

Mr. KELLEY. And they would talk to you?

Mr. SISLER. They naturally talked to me, as they knew I was in daily attendance at the board meetings.

Mr. KELLEY. And sometimes would they endeavor to get information from you as to what the different members of the board had said, what the estimate of the board was or would be likely to be?

Mr. SISLER. That was a common practice. And all this would be considered confidential; they would ask me, as the secretary of the board, as to the status of their particular case.

Mr. KELLEY. And if there was any particular one blocking a settlement or blocking the award of the contract, they would try to find out which one it was?

Mr. SISLER. And they usually found out. If they did not find out through my office or through me, they would find out through a process of elimination. They would talk to four or five members and find out which of the four or five were in favor of their matter, and by a process of elimination they would find out the stumbling block.

Mr. KELLEY. Did anybody ever seek to improperly influence you to give out confidential information?

Mr. SISLER. No; in no instance.

Mr. KELLEY. All the questions that were asked were in the nature of such questions as the man seeking to do business with the Government would ask of a Government official?

Mr. SISLER. Information that I would feel, usually, absolutely in order.

Mr. KELLEY. Yes; and if it was not, you would simply say you were not at liberty to give it out.

Mr. SISLER. I would easily tell them in that case that the matter was being discussed by the board, and that it was still before the board for consideration, and that no decision had been rendered.

Mr. KELLEY. You were not really what would be called an officer holding a discretionary position, were you—your duties were mostly ministerial and clerical?

Mr. SISLER. Only administrative and executive. The personnel of the board came under me.

Mr. KELLEY. You did not pass on any question of the awarding of contracts, but were simply the custodian of the documents, were you, after they were signed?

Mr. SISLER. I had to prepare for presentation to the board all of its cases—all cases went over through my office.

Mr. KELLEY. That is to say, any contract that came up in an irregular way to the board.

Mr. SISLER. Contracts very seldom came to the board. It was only in event there was an appeal of someone as to the terms of the contract, and that was discussed by the trustees and not the board.

Mr. KELLEY. Some of the contracts were not made by the contract division; is that right?

Mr. SISLER. A great many contracts were negotiated outside of the contract division.

Mr. KELLEY. Were nearly all large contracts made by the board and the more moderate ones in size by the contract division?

Mr. SISLER. The chairman of the board, or rather the president of the Fleet Corporation, who occupied both offices, together with the general manager, had the requisite authority to negotiate all contracts.

Mr. KELLEY. But, ordinarily, you required them to come up to the contract division?

Mr. SISLER. Ordinarily that was the case.

Mr. KELLEY. What would be the——

Mr. SISLER (interposing). I do not believe Mr. Schwab would have gone to Radford or the contract manager to discuss the Liberty Yard contract of sixty odd million, I would say. I imagine that was discussed by the trustees.

Mr. KELLEY. The contract with the Bethlehem people was made directly by the board?

Mr. SISLER. Made by the president of the corporation and the general manager.

Mr. KELLEY. Made by the president and general manager, and did not come up to the contract division?

Mr. SISLER. The contract division doubtless whipped the contract into legal phraseology.

Mr. KELLEY. Yes; but how about the credit man, would he have to scrutinize that?

Mr. SISLER. I imagine not.

Mr. KELLEY. No; not in the case of a large concern.

Mr. SISLER. Particularly the Bethlehem.

Mr. KELLEY. How about the Skinner & Eddy contracts?

Mr. SISLER. I think most of those perhaps were scrutinized at least by the contract board.

Mr. KELLEY. What do you mean by that?

Mr. SISLER. They were perhaps referred by the general manager to the contract division for criticism, more particularly from a legal phraseology standpoint, I should say.

Mr. KELLEY. After you had been going a little while, did you get a standard contract which was entered into by all concerns, large and small alike, or did some concerns have a very different sort of contract than others?

Mr. SISLER. We attempted to standardize contracts according to the particular construction, whether it would be a wooden ship or a tug. There was no standard phraseology other than a particular type of vessel. In other words, there was practically a standard contract for steel ships, for wooden ships, for tugs, and barges, etc.

Mr. KELLEY. Were there contracts made simultaneously—some of them on the cost-plus basis and others on the lump-sum basis?

Mr. SISLER. Yes.

Mr. KELLEY. Who determined which kind of contract the corporation would have?

Mr. SISLER. That was usually determined upon by the general manager and the contract department. Some contractors preferred a lump-sum basis. They knew and were assured absolutely what they were getting. Others preferred the cost-plus.

Mr. KELLEY. Then you think it was the general practice all through the country that these shipbuilding companies had to have money that they could not get in excess of what they could get from the Shipping Board—that the practice was to get it from bankers indirectly, and not directly from the banks, and for which large concessions were paid.

Mr. SISLER. I do not know that I was qualified to put it just that way.

Mr. KELLEY. I wish you would state that, now, just what the practice was?

Mr. SISLER. My impression is that they would first appeal to the bank, and in the event the bank would not consider the establishment of such a credit they would then appeal to the financial institutions which were not considered under the national banking laws or to individuals of particular banks, and it was in instances, in my opinion, where the credits were established through the medium of banks that rather conservative commissions and interests were paid; and in the case of private negotiations I am rather inclined to the belief that the percentage would run four or five times higher than through a bank.

Mr. KELLEY. Where it was discovered by the Shipping Board that a company could not get its finances through the regular channels, through the banks, but had to resort to this practice which you speak of, were the contracts awarded the same as when this unusual method prevailed?

Mr. SISLER. They were usually held in abeyance until they could qualify absolutely to the satisfaction of the contract department.

Mr. KELLEY. Although that imposed upon this weak concern an additional burden and made their success much less likely.

Mr. SISLER. Well, it made their anticipated profits that much smaller.

• Mr. KELLEY. It would make their success—their successful operation and the successful completion of the contract just that much less likely.

Mr. SISLER. To an extent, at least, yes.

Mr. KELLEY. Do you not think it would have been a better practice if the board, having decided that it was a meritorious company, a proper company to have a contract awarded to it, to have given them what little assistance they might need, rather than to force them to pay 40 or 50 per cent, as you say was done in the case of the weaker ones, which could not go to a bank to get help.

Mr. SISLER. Subsequent developments will absolutely substantiate a contention of that sort, because the Shipping Board has to come to the assistance of all the weaker contractors eventually.

Mr. KELLEY. After they had paid these enormous commissions, then they had to come to their rescue nevertheless.

Mr. SISLER. Nevertheless.

Mr. KELLEY. And in many cases when they did come to the rescue they found that the company was in very weakened condition because of the extortionate commissions which had been paid.

Mr. SISLER. Not only weakened, but in many instances beyond repair.

Mr. KELLEY. So that the Government suffered losses there that would be hard to collect?

Mr. SISLER. Unquestionably so.

Mr. KELLEY. Do you know Otis B. Kent?

Mr. SISLER. I am very well acquainted with the gentleman.

The CHAIRMAN. Mr. Sisler, did I understand you to say at the outset of your testimony this morning that you had made recommendations concerning the size of deposits in some of the banks in Washington?

Mr. SISLER. No; not recommendations. I had directed to the attention of the board communications received from various banking institutions asking that their bank be designated as a depository. Those were really letters of appeal after they had used their best efforts to be so designated. They usually took those matters up with the financial end of the board, and having a banking account established with them, they, as a last resort, would appeal to the board.

The CHAIRMAN. You stated you had some difficulty, or otherwise, with Chairman Hurley, or that you did not get along very well. Was that so?

Mr. SISLER. That is correct.

The CHAIRMAN. Was that with reference to matters of policy in the board?

Mr. SISLER. Why, both policies in the board and my frankness, I suppose, in calling a spade a spade, and the fact that I do not believe our dispositions jibed. I perhaps may have been just as conscientious as Mr. Hurley. I may have been also just as much to blame in his eyes or his opinion of me as the opinion I had of him.

The CHAIRMAN. Did you each express your opinion of the other?

Mr. SISLER. He, on many occasions, and myself, at least, in isolated cases.

The CHAIRMAN. Did the result of this friction or incompatibility—

Mr. SISLER (interposing). Of temperament?

The CHAIRMAN. Of temperament, interfere with the functioning of the board in any way, do you think?

Mr. SISLER. Well, my incompatibility of temperament with him may have not reflected to the best interests of the service. I was rather a hard man to escape when I wanted a board meeting, and one of the most difficult tasks that I had as secretary of the Shipping Board, after the reorganized board; that is, subsequent to the Denman-Goethals régime, was in getting a quorum of the board to do business. I was insistent that the members attend, and was in many instances rebuffed, of course. But, considering my duties as secretary of the board, I usually did not waver in getting a meeting. If I could not get a majority, I usually went ahead with two members, and subsequently—

The CHAIRMAN (interposing). Were you there during the so-called Denman-Goethals controversy?

Mr. SISLER. Yes, sir; a most unfortunate occurrence for the country.

The CHAIRMAN. Did that result in delay in the shipbuilding program?

Mr. SISLER. Very little, I would say, because I think the board would have taken snap judgment, and I think the president of the fleet would have taken snap judgment in signing hundreds of contracts that he had not time to have investigated, or at least perused, himself.

The CHAIRMAN. At the outset of the program, Mr. Sisler, the emergency was very pressing, was it not?

Mr. SISLER. It was, sir.

The CHAIRMAN. And construction work had to be gotten under way?

Mr. SISLER. Every effort was being made to that end.

The CHAIRMAN. And, in view of the emergency, decisions were reached, both on the part of the board and trustees and officials, which perhaps upon more mature reflection and deliberation, could not have been arrived at?

Mr. SISLER. Yes; that is so, because there were many sad occasions, and the board discovered only too late that it had been perhaps too hasty in the award of certain contracts.

Contracts were awarded to certain yards where dredging would have to be done. There was no possible way of launching a ship or getting the ship to the seaboard without dredging. One little case in New England necessitated tearing down of a bridge in order to get boats out to sea, a little matter that the board had overlooked and I imagine the contractor likewise overlooked.

The CHAIRMAN. And the press of the country, and perhaps of other countries, was insistent through their news columns and editorial columns that shipbuilding go forward without delay.

Mr. SISLER. And at any cost.

The CHAIRMAN. At any cost.

Mr. SISLER. That is correct.

The CHAIRMAN. Congress was urging it and demanding action?

Mr. SISLER. It was, sir.

The CHAIRMAN. The President, through his official advisers, was urging that speed?

Mr. SISLER. That is true, of course.

The CHAIRMAN. And people came to Washington seeking contracts and making representations as to their ability to carry out the contracts and to build ships who, it afterwards developed after contracts had been awarded and the work had begun, were not properly equipped either by plant or experience to undertake the work?

Mr. SISLER. That was so in many instances.

The CHAIRMAN. Of course, mistakes were made both by shipbuilders and by officials of the Shipping Board and Fleet Corporation?

Mr. SISLER. About an even break, I should say.

The CHAIRMAN. And errors of judgment occurred?

Mr. SISLER. That was true.

The CHAIRMAN. And in many instances carelessness of financing or accounting that crept in?

Mr. SISLER. We were woefully weak from the standpoint of accounting. The organization had grown to such proportions that it got away beyond the financial department, both in the construction and the operating department.

The CHAIRMAN. Of course, in spite of the pressure the emergency and the tremendous proportions of the work, it might have been possible to have avoided some of the errors and the mistakes that were made and the lack of sufficient precautions which existed.

Mr. SISLER. As an apt illustration of that, I can best refer to the commandeering of all vessels by the Government over 2,500 tons, when we did not even have at that time a division of operations to keep track of those vessels. A gentleman was appointed on or about that time to act as director of operations, and it was then up to him to formulate his organization. But in taking over the entire fleet of the United States of all vessels in excess of 2,500 tons dead weight the board readily saw within a month or six weeks that it should have prepared a gigantic organization to look after that fleet and the returns of that fleet before it commandeered them.

The CHAIRMAN. Do you think that the mistakes and lack of organization and errors of judgment resulted in loss to the Government financially that might have been avoided?

Mr. SISLER. Gigantic losses occurred that could have been avoided.

The CHAIRMAN. At the time you resigned, Mr. Sisler, had many of these defects in organization and in accounting been cured?

Mr. SISLER. Not from an accounting standpoint; no. We never had any experienced ship accountants to head our accounting division, either from a construction or operating standpoint. Most of those men were very reputable, high-class business men, but were not accountants nor were they familiar with the character of organization that should have been required to take care of such an enormous task.

The CHAIRMAN. Of course, there were not very many shipbuilders in the country at the beginning of this progress plan, was there?

Mr. SISLER. Comparatively speaking, no.

The CHAIRMAN. There was not many competent men qualified in ship accounting.

Mr. SISLER. There could have been secured, unquestionably, competent men who could have formulated a proper accounting system. Their subordinates, who likewise would have been accountants, though not necessarily ship accountants, could have qualified within a comparatively short space of time, with their former accounting experience, and have readily got on to this particular class of accounting.

The CHAIRMAN. Reverting to the matter about which you were inquired concerning last evening, do you recall Mr. Bolling ever having telephoned to you about the bending rolls for the Downey Shipbuilding Co.?

Mr. SISLER. Like Mr. Cranor testified this morning, I had no distinct recollection of having been phoned to by Mr. Bolling. It is neither possible that he may have phoned my office. I received requests similar to that, I suppose, a dozen or 50 times a day. I did not have time, as a rule, to look into those matters myself, and usually turned them over to one of my assistants, who would get the information desired, and it is quite possible, as Mr. Bolling has testified, and if Mr. Bolling stated that he did call my office, I would say he did and take his word for it. But to testify under oath that he did or did not, I would not like to say.

The CHAIRMAN. You have no recollection of it?

Mr. SISLER. No.

The CHAIRMAN. And if Mr. Bolling says he did that, you would not testify under oath that he did not?

Mr. SISLER. Under no circumstances, because I would take Mr. Bolling's word on this or any other matter.

The CHAIRMAN. Mr. Sisler, did he frequently telephone you about similar matters?

Mr. SISLER. No; I should say maybe once or twice in two weeks. Maybe once a week he might call me about some matters. Lots of times it would be about an accounting matter, a matter that might concern his department. On other occasions which were, I should say, very infrequently he perhaps had occasion to call me regarding some matter that was not within the confines of his own division. I could not enumerate to you to-day any specific instances where he did so.

The CHAIRMAN. But did he frequently call you or see you about having something done to assist a shipbuilder or a shipbuilding corporation?

Mr. SISLER. I would say that was more than infrequent.

The CHAIRMAN. More than infrequent?

Mr. SISLER. Yes.

The CHAIRMAN. So that if he did it upon this occasion, and you are not prepared to state that he did not, this might have been the only time he ever did it?

Mr. SISLER. That is possible.

The CHAIRMAN. You have no recollection of other instances?

Mr. SISLER. I state that because I could not give you specific cases.

The CHAIRMAN. You were the one man there in the Shipping Board, particularly at the beginning, that pretty nearly everybody tried to see?

Mr. SISLER. That is to say, the board was all shot to pieces for a time, and I was about the only one they could see.

The CHAIRMAN. I mean, after the board was reorganized, you were the secretary?

Mr. SISLER. I was the secretary of both organizations.

The CHAIRMAN. Both organizations; and pretty much everybody tried to see you that had business, not only Members of Congress and secretaries, but their constituents, and also shipbuilders and business men, financiers, and even men within the Shipping Board organization—all had, or thought they had, occasion to see you and made efforts to talk with you?

Mr. SISLER. They usually came to me for direction; particularly they would come to the Shipping Board lots of times with a matter that should be transferred to the War Department or to the Navy Department that had to do with boats, and the War Department had boats as well as the Navy Department, as did likewise the Shipping Board.

They would usually present the facts of their case to me and ask me for my suggestions, how it should be presented to the board, or to whom it should be presented, and what course it would take in the event it was presented. I usually in those instances had them reduce to writing their case, so that I could direct it to the proper division or direct it to the board.

The CHAIRMAN. There is no reason, from any memorandum you ever made, or from any particular circumstances attendant upon the incident, why you should remember Mr. Bolling calling you up on the Downey case, is there?

Mr. SISLER. None whatever.

The CHAIRMAN. And you did not make notes of all these things when people talked with you on the telephone?

Mr. SISLER. My secretary usually was on the same wire with me, and in the event of a call she usually had the name and what it was about before I went on the wire. That call was usually taken down in shorthand or a memorandum made of it. In the event that a particular person came back, my secretary would be familiar with his case. But I never made notes myself, as a rule.

The CHAIRMAN. I think that is all, Mr. Sisler, but the committee may possibly return to New York within the next few weeks, and if we do, we may desire to recall you. If we do not come back here, it is possible we might like you to come to Washington for further testimony.

Mr. SISLER. May I inquire at this time whether that will be in December or January? The reason I ask the question is, I am engaged in the lumber business in Newfoundland, and I ought to be there now. I should have gone last week, if it had not been for this committee meeting—I should have sailed last week, to be gone five weeks.

The CHAIRMAN. Five weeks?

Mr. SISLER. It takes about that time to make the trip.

The CHAIRMAN. I can not say at present, but I think it unlikely we will return to New York during December.

Mr. SISLER. Maybe after the 10th of January—I will leave my address with you anyway, so I can come back by rail.

The CHAIRMAN. Mr. Denman, did you wish to make a statement to the committee?

Mr. DENHAM. Before the committee reassembles, I desire to state briefly the constructive suggestions that I hope to elaborate when you hear me at your next or later session.

The CHAIRMAN. The committee would much prefer, Mr. Denman, for you to make your suggestion when you are called to testify.

Mr. DENMAN. The reason I wanted to make it now was, first, because the project I have to suggest requires my attention, immediate attention, and second, because I desire to have the outlines made of it so that those who desire to criticize it or ask me to elaborate on it will have the opportunity before I come.

The CHAIRMAN. How long would it take you to make a brief statement of what you desire?

Mr. DENMAN. I should say about 10 minutes.

TESTIMONY OF MR. WILLIAM DENMAN, SAN FRANCISCO, CALIF.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. You have a matter which you desire to bring to our attention briefly, which may be the subject of further inquiry by the committee, and we ask you to state that matter now concisely.

Mr. DENMAN. I have assumed from the discussions that I have had with members of the committee privately that the functions of the committee are divided into two classes, one an inspection of the work of the Shipping Board for the purpose of discovering such frauds and improper practices as may have been pursued. That is inevitable in a two-party system of government. Each party must criticize the other, and if it discovers nothing of importance it at least will be able to avoid in the next crisis the types of people shown here.

But I take it from my conversation with you that the major purpose of your committee is to reach constructive policies and to receive such constructive suggestions as may come from men who are more or less qualified to give them.

It is in the latter connection that I desire to speak at length at a proper time. I desire also, coincident to that, to kill the so-called Denman-Goethals controversy over wooden ships.

The CHAIRMAN. Do you think you can do that in 10 minutes?

Mr. DENMAN. No; I am not going to do that in 10 minutes. I am simply going to say that there never was any such controversy; that Gen. Goethals from the time I first met him to the end of my contact with him was always for the building of as many wooden ships as could possibly be constructed, and at my last session with him he regretted with great bitterness the contrary reports which had been attributed to him. That was a conversation taken down by a stenographer and is a part of the records of the Shipping Board.

Not only that, I was never in favor of building wooden ships at the expense of steel, and I will show that my policy contemplated the building of an auxiliary wooden fleet, and that my major policy, long before I engaged Goethals or caused him to be engaged, was building a steel fleet.

I shall show, when the time comes, Goethals's enormous accomplishment in contracts and in plans for contracts, which by some strange perversion of the Shipping Board records all were attributed to the next administration—the number of ships signed for by Goethals, the number of ships arranged for by Goethals in the brief period of two months was simply enormous. It exceeded something like 600 vessels.

As a matter of fact, he and I signed in a period of 60 days contracts aggregating some \$300,000,000 without the scratch of pen or authority from anybody. They were afterwards ratified.

I am speaking of this briefly, because I think the country would hesitate to accept any suggestion I have to make, under the impression that I ever advocated building wooden ships for anything but a war purpose, or even advocated building wooden ships for anything except as an auxiliary of our major steel program.

The wooden ship project was not mine. The project that I brought to the board, and on which I made a very considerable accomplishment, was the building of Diesel-engine vessels, which should become a part and subsequently a large part of American fleets. I have been for many years, or for a long time, the attorney for a fleet of Diesel-driven vessels sailing from Copenhagen and the Baltic ports to San Francisco. I was familiar with the Diesel motor as it had been developed at that time, knew that it was entirely practical, and obtained contracts for the construction of a fleet of 24 of such ships, and those contracts were to be finally signed, or, as I preferred, the plants that we had arranged for were to be commandeered and taken over by the Government, and the vast project of building Diesel vessels was to be undertaken co-ordinate with and at a time subordinate to the building of steam vessels such as were constructed by the Diesels.

After I had laid the project before Goethals we were in entire accord on it. We had his assistance in the original negotiations, and the day that the two of us resigned was the day set for the final discussion for the determination of whether or not we would commandeer or whether we would use the contracts which had been tendered to us.

I intend to show the relationship between Diesel and the supply of oil, both in the United States and throughout the world. I intend to show the relationship between the Diesel and the bunkering situation between nations. I intend to show how the bunkering privilege was used during the war to coerce our ships into certain lines of trade for the purposes of the Allies, and I intend to show that the same thing can be done to-day in commercial rivalry, if these nations desire to do so, in response to the so-called discriminations of the Jones bill.

I do not intend to offer a criticism of the policy of those who used their bunkers against American shipping, because it was a war emergency, but I intend to bring out the exact power that lies with them to-day to use their bunkers, and I will show that had they adopted—that is, had our Government adopted—the project that I proposed for the building of Diesel ships, that we would to-day have had a fleet that could pass by any bunker in the world with abundant oil fuel in its double bottoms, to go around the world with a single charge.

My business is on the Pacific coast. I am at the present time the receiver for two large corporations, and I should be there now. I am quite ready to stay on to give such testimony on this subject as you may desire to have. I hope you can arrange to hear me fully before I return to the West.

The CHAIRMAN. When do you plan to return?

Mr. DENMAN. I can stay on. I have practically completed my business here, so I can stay on two weeks if you can hear me within that time.

The CHAIRMAN. The committee, of course, will be in Washington next week, coincident with the reassembling of Congress, and I can assure you, Mr. Denman, that if we can arrange to hear you within the next two weeks that we will let you know, but I can not give you any assurance to-day that we can hear you within the next two weeks, so that you can arrange to stay. I think I might do that Monday or Tuesday of next week.

Mr. DENMAN. I beg that you will. I think the one great question before the Shipping Board has been the procuring and search for a method to procure these Diesel ships which use but a third the fuel that steam-driven vessels do, and it will conserve our supply of oil so far as it is used on the sea for many years beyond its present life, and it will make us free from competition in that friendly warfare of commerce that we anticipate of the most powerful agency of opposition that Great Britain has, namely, the fuel bunker.

I shall show further the propaganda that there was in Washington against the use of Diesels. I shall show how it has affected subsequent members of the Shipping Board. I shall show statements that emanated during my time from foreign competitors that were repeated by members of the Shipping Board almost identically—statements absolutely contrary to the experience then in the use of those ships, and it should come soon.

Our oil controversy with Great Britain over the Mesopotamia field has a direct relationship to the use of these vessels, and if you can arrange for a hearing at an early date I shall feel I am making no impact on the country's time.

The CHAIRMAN. I understand from your statement that you are prepared to produce facts to prove these things which you say you will show, Mr. Denman?

Mr. DENMAN. Yes.

The CHAIRMAN. Facts?

Mr. DENMAN. Yes; I will produce the facts with reference to Gen. Goethals in regard to wooden ships and the value of his position on them. I shall produce the facts in reference to the long-established value of the Diesel. I shall produce facts to show the contracts that I procured—not advertising or talk or books or other matters praising the Diesel, but the actual gathering together of the material for the building of them. I shall produce facts as to the method by which interference was made with our commerce during the war, much of it justifiable, but as to how much it was done and how it can be done in the future; and I shall show with reference to the provisions of this Jones bill where we have a real contest on our hands if we intend to go in for discrimination, and how the country must be prepared for that real contest if it is going to pursue the policy.

The CHAIRMAN: Of course, this committee, Mr. Denman, has no jurisdiction over legislation amending the Jones bill. That comes, as of course you know, before the Commerce Committee of the Senate and the Merchant Marine Committee of the House. This committee is investigating the transactions of every nature of the Shipping Board, together with corporations having constractural relations with it, and while, as you have been assured by members of the committee, it is hoped that the result of our inquiry will be constructive in its character, we are not authorized to hold a hearing upon the Jones bill for the purpose of reporting proposed amendments.

But I take it from the statement you have already made that you are prepared to relate what occurred with reference to these matters while you were a member of the Board, and what you know has happened since, and what you are confident will be the results in the future unless some constructive legislation is enacted by Congress.

Mr. DENMAN. You are quite correct, Mr. Chairman. I have no desire to amend the Jones bill. I desire to point out what must be done in the way of ship construction to meet the inevitable commercial conflict that will arise out of the Jones bill, and its possibility of being won by ourselves, and the fact that it can not be treated slackly, and must be treated both by men of resolution and strength, backed by the country, and that we should call upon the experience of the country in shipbuilding and commercial competition if we are going to make the bill a success.

The CHAIRMAN. You state there was no controversy between yourself and Gen. Goethals over the wooden shipbuilding program?

Mr. DENMAN. Oh, with reference to the principles of the program. There was some disagreements as to the design, which were of slight importance.

The CHAIRMAN. Was there a controversy between you about anything?

Mr. DENMAN. Yes.

The CHAIRMAN. And was that controversy the reason or the cause for you both leaving the board?

Mr. DENMAN. The controversy was used in getting both of us out of the board, with the result that just at the time this great project of building Diesel vessels was about to be consummated, we withdrew.

The CHAIRMAN. Mr. Denman, you will be in New York Monday or Tuesday of the coming week?

Mr. DENMAN. I can be reached here. I shall be either here or in Boston, I do not know which.

The CHAIRMAN. At the Biltmore Hotel?

Mr. DENMAN. At the Biltmore.

The CHAIRMAN. I will let you know definitely on Monday or Tuesday of next week, after I have an opportunity to confer with the committee, just when within the next two weeks we can hear you, if possible; and if we can not hear you, I am very much afraid that it will be necessary for you to inconvenience yourself to make a trip across the country to come to Washington a little later. The committee wants to hear you and secure the information that you

desire to lay before it on this matter, and we feel that you also have some information upon other matters which the committee expects to inquire into, and I will let you know Monday or Tuesday definitely with respect to your appearance before the committee.

Mr. DENMAN. Mr. Chairman, may I ask that you outline to me the matter on which you desire me to bring testimony other than—

The CHAIRMAN (interposing). It will be practically the early transactions of the Shipping Board, what was done and the question of organization and the awarding of contracts and accounting matters, and all such matters as that during the early stages. The general inquiry such as you would naturally expect to be made of a member of the board at that time.

Mr. DENMAN. I thank you, sir.

TESTIMONY OF MR. MARTIN J. GILLEN—Recalled.

The CHAIRMAN. You state you have some revisions you desire to make of your testimony.

Mr. GILLEN. Yes, sir.

The CHAIRMAN. Have you prepared them?

Mr. GILLEN. I have prepared them.

The CHAIRMAN. You have prepared a list over your signature?

Mr. GILLEN. Yes, sir.

The CHAIRMAN. What do the revisions consist of, mostly grammatical errors—

Mr. GILLEN. I will read it. [Reading:]

Acting under the oath taken by me before your committee, I have examined my testimony and have made certain changes to cover typographical and other errors in statements, which in no case has changed the sense of the testimony, or any of the facts stated therein. These revisions are set forth according to line and page below. I have made revisions also on the original testimony, and with this statement I herewith hand to you a copy of the original testimony with the changes made in writing on the margin.

The CHAIRMAN. These are with reference to your own testimony?

Mr. GILLEN. Yes, sir.

The CHAIRMAN. Have you a copy of the record?

Mr. GILLEN. I have the testimony that was submitted to me.

The CHAIRMAN. Very well. You say these revisions make your testimony correct?

Mr. GILLEN. Yes, sir.

The CHAIRMAN. These revisions will be entered, Mr. Stenographer, in the record.

The committee will adjourn, to resume its hearings in Washington, D. C., upon the call of the chairman.

(Thereupon, at 1.05 p. m. the committee adjourned to meet in Washington, D. C., upon the call of the chairman.)

SHIPPING BOARD OPERATIONS

HEARINGS

BEFORE

SELECT COMMITTEE ON U. S. SHIPPING BOARD OPERATIONS

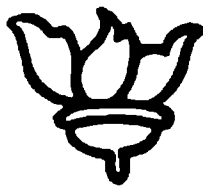
HOUSE OF REPRESENTATIVES

SIXTY-SIXTH CONGRESS

THIRD SESSION

**TESTIMONY OF
MR. WILLIAM DENMAN**

PART 8



**WASHINGTON
GOVERNMENT PRINTING OFFICE
1920**

**SELECT COMMITTEE ON UNITED STATES SHIPPING BOARD
OPERATIONS.**

HOUSE OF REPRESENTATIVES.

JOSEPH WALSH, Massachusetts, *Chairman.*

PATRICK H. KELLEY, Michigan.

HENRY J. STEELE, Pennsylvania.

LINDLEY H. HADLEY, Washington.

TOM CONNALLY, Texas.

ISRAEL M. FOSTER, Ohio.

GEORGE H. NORTON, *Clerk.*

CONTENTS.

PART 8.

	Page.
Testimony of Denman, Mr. William, formerly Chairman of the United States Shipping Board and President of the Emergency Fleet Corporation.....	3171

SHIPPING BOARD OPERATIONS.

SELECT COMMITTEE ON UNITED STATES
SHIPPING BOARD OPERATIONS,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Monday, December 13, 1920.

The committee met in the caucus room, House Office Building, at 10 o'clock a. m., on call of the chairman, Hon. Joseph Walsh, (Chairman) presiding.

Also present: Representatives Kelley, Hadley, Foster, and Connally.

TESTIMONY OF MR. WILLIAM DENMAN, FORMER CHAIRMAN UNITED STATES SHIPPING BOARD AND PRESIDENT OF THE EMERGENCY FLEET CORPORATION; RESIDENCE, SAN FRANCISCO, CALIF.—Resumed.

The CHAIRMAN. Mr. Denman, when were you appointed to the Shipping Board?

Mr. DENMAN. My appointment was made in the month of November, 1916. It was confirmed in January, 1917, and the board was organized on the 30th day of January, 1917. I had previously been one of the active participants in the framing of the legislation, beginning back in the latter portion of 1915.

The CHAIRMAN. When was the Emergency Fleet Corporation organized first, if you remember?

Mr. DENMAN. The resolution of the board authorizing the organization under the act was passed on the 14th of April, 1917; and the corporation was organized between then and the 18th of April.

The CHAIRMAN. And were you the first chairman of the Emergency Fleet Corporation?

Mr. DENMAN. I was the first chairman of the Shipping Board. About that I would like to make a statement: In the original group of appointees was Mr. Bernard N. Baker, an able and experienced shipping man, who had sought to organize such a board in the original bill as a mere adjunct to two members of the Cabinet. I was one of a group that wanted to make it a pure commission, or a purely Cabinet administration. We disagreed in the course of the preliminary discussions, and Mr. Baker resigned. I was requested by the President, or rather the board was requested by the President, to make me chairman. I was tendered the election on the 30th of January but declined to accept the chairmanship, hoping that the vacancy would be filled by some shipping man on the Atlantic coast who knew the personnel and conditions prevailing in Atlantic carriage.

The CHAIRMAN. Will you just give us the personnel of the board on the 30th of January, 1917.

Mr. DENMAN. Mr. Theodore Brent, Mr. J. B. White, Mr. Donald, and myself; Mr. Baker having previously resigned. I did not accept the chairmanship of the board until nearly seven weeks later, after the appointment of Mr. Stevens, who had had no shipping experience, and who came to the board from New Hampshire, I believe, and did not look to taking a prominent part in shipping activities. From March 20 until July 24 I was chairman of the Shipping Board. Sometime around the 17th or 18th of April I was elected president of the Emergency Fleet Corporation, and held that position until the 24th of July.

The CHAIRMAN. Now, did you have the appointment of the various officials of the board?

Mr. DENMAN. No; I had no powers as president of the corporation of appointment. I am speaking now of the Emergency Fleet Corporation. By a provision of the by-laws that was entirely in the hands of the general manager, Gen. Goethals.

The CHAIRMAN. When was he appointed?

Mr. DENMAN. He was appointed at the time of the organization of the corporation or just before.

The CHAIRMAN. Was that prior to your being made president of it?

Mr. DENMAN. At the same time.

The CHAIRMAN. Who appointed the officials of the Shipping Board, such as the treasurer and secretary and auditor and comptroller?

Mr. DENMAN. That was done by the board as a body.

The CHAIRMAN. And how were those men selected; how did their names come before the board?

Mr. DENMAN. They were suggested by various members of the board, and quite a number of them very largely through Mr. Stevens. Mr. Stevens was our political member, and a very large portion of the patronage was suggested by him.

The CHAIRMAN. What do you mean by the statement that Mr. Stevens was the "political member" of the board?

Mr. DENMAN. Well, I think there was the feeling that the chairman was markedly lacking in political instinct, and Mr. Stevens, who was a charming and very able man, was hoped to supply the deficiency of the chairman.

The CHAIRMAN. Well, was that by general consent of the board?

Mr. DENMAN. I think it was the hope, both inside and outside of the board.

The CHAIRMAN. Do you know who appointed the treasurer of the board at that time?

Mr. DENMAN. Oh, it was by board action, Mr. Chairman.

The CHAIRMAN. Were minutes made of those various appointments?

The CHAIRMAN. So the board records would show that?

Mr. DENMAN. I think the board records would show. I have not in mind the appointment of the treasurer. There was an auditor of the Shipping Board and the treasurer of the Emergency Fleet Corporation. The secretary of the board was not a permanent secretary, was not elected until very shortly before I resigned. We had had a series of temporary secretaries, and I was hoping to get a driving business executive secretary, and would have succeeded in placing one there had it not been for the atmosphere of controversy with which the journalists surrounded us, in the press, which made

men hesitate to come. But I hoped I had cleared the atmosphere, and was going to bring in a sizeable man to take that position.

The CHAIRMAN. Did you suggest Mr. Lester Sisler for secretary of the board?

Mr. DENMAN. No, sir; I did not. I did not know Mr. Sisler, and it was moved that he be elected permanent secretary when he first came, but this was not done. He was appointed temporary secretary, to try him out.

The CHAIRMAN. Do you recall meeting him in the corridor of some government building and offering him the position of secretary of the board?

Mr. DENMAN. I do not.

The CHAIRMAN. Had you made any inquiry of the Interstate Commerce Commission as to his capability?

Mr. DENMAN. No.

The CHAIRMAN. And you had not known him?

Mr. DENMAN. I had not known him.

The CHAIRMAN. And you did not suggest him either for temporary or permanent secretary of the board.

Mr. DENMAN. I think when he was mentioned for permanent secretary I proposed him for temporary secretary.

The CHAIRMAN. Do you recall having acted upon the application, or of taking action upon the suggestion of the name of Mr. R. Wilmer Bolling for any position in the board or in the Fleet Corporation while you were there?

Mr. DENMAN. There is a minute of the suggestion made to create a place for Mr. Bolling, on the 7th of June.

The CHAIRMAN. 1917?

Mr. DENMAN. 1917; yes, sir. Mr. Stevens proposed Mr. Bolling's name for some position, as I recall it, unnamed, and the minutes said "discussion was had, but no action taken."

The CHAIRMAN. You do not know whether that suggestion was made by Mr. Stevens as the result of an application having been received or whether it was initiated by Mr. Stevens's suggestion?

Mr. DENMAN. I do not recall whether there was a formal application. I remember the discussion which took place, not only at the meeting of the board but in the rooms of the board—that is, in the chambers of the commission. I was very much opposed to employing Mr. Bolling, not that I had anything against him; I suppose it was nonpolitical on my part, but I felt there would be grave danger to the President to have a man in our employ who was connected with the President's family, as he would be the object of enticements of designing persons who might want to get him in an embarrassing position and which might bring discomfort on all of us.

The CHAIRMAN. Did it occur to you that he might be made the subject of a trap or tricks?

Mr. DENMAN. Yes. I had no specific thing in mind in the way of a particular trap, but I simply feared that having a member of the family of the President on the board might bring us embarrassment. The conversation or conversations covered quite a period of time then.

The CHAIRMAN. Mr. Denman, did your board take action with reference to requisitioning commandeered vessels?

Mr. DENMAN. That was under discussion at the time we resigned. In order to get a clear picture of that, you must remember that while your legislation giving the power to commandeer was passed June 15, 1917, the President, to whom the power was delegated by the Congress, did not allocate the powers of the congressional act to us until the 10th or 11th of July. So that my administration, so far as war-created powers were concerned, had but 13 days of activity. Now, of course, we had been planning and expecting to get the powers, and the method of commandeering was under discussion and the last week's minutes, particularly the minutes of special sessions that we held, which were taken down in full and typewritten, show the pendency of discussion as to the methods of commandeering.

Gen. Goethals had been so completely engaged in letting contracts for ships, and a very large fleet was contracted for by Gen. Goethals in that time; I say, he had been so completely occupied in that that he had not procured the preexisting contracts for ships that were under construction on our stocks when we got the commandeering power. We requested those and they were being gotten together for us so that we could formulate finally our method of commandeering. Almost the last minute in the board before our resignation had reference to procuring a complete list and outline of existing contracts for ships. I want later to pay a tribute to Gen. Goethals's real accomplishment there; it was a very remarkable achievement. Unfortunately it has not been mentioned in the publicity given out by our successors. All of Gen. Goethals's contracts were merged in a group of contracts claimed by the next administration. This is in their publication late in 1918 of a statement called "Shipping facts." Only by digging in the elaborate annual reports could Gen. Goethals's achievements be worked out into a statement.

The press relied on the summary of Shipping facts, which at pages 12 and 13 omit the contracts reported in Gen. Goethals's administration and lumped them in the report of March 30, 1918, under the heading of Organization of present Shipping Board. I think at some time during the course of this session I should be permitted to fully show what he accomplished.

The CHAIRMAN. Those contracts that were awarded all had to be later ratified by legislation, did they not?

Mr. DENMAN. I think not. We began letting contracts and signing them before we had authority, but they were later adopted. They were made by Gen. Goethals and his staff, but as president of the corporation I signed the contracts when they came over with Gen. Goethals's O. K. on them. The only participancy I had in connection with the making of contracts was in the laying down of general policies, particularly with regard to the scheme of fabrication of ships, such as was worked out at Hog Island; the scheme and the project of assemblage of plant for the manufacture of Diesel engine vessels; and the question of the size of appropriations to cover the entire scheme. In this connection I desire to file before the board a statement which is the purpose of my wishing to appear before you.

The CHAIRMAN. No; we will take your testimony. I do not think we care to have statements put in in writing. I understood that you brought to the attention of the committee the purpose of desiring to be heard, at New York, recently, when you were asked about the matter. Is this statement which you ask leave to submit along that line?

Mr. DENMAN. It is a condensed statement of the Diesel motor ship project.

The CHAIRMAN. And that is what we desire to inquire about as we go along.

Mr. DENMAN. I desire to have it considered as offered as it has been released to the press.

The CHAIRMAN. We prefer to have you testify. You have said that you had only about 13 days after the requisitioning and commandeering powers were transferred by the President to the board. During that period of 13 days was anything done that you know of to set up an accounting department of the board or the Fleet Corporation in order to take care of this particular activity?

Mr. DENMAN. That brings up the whole question of division of board operations. My plan for the division of board operations——

The CHAIRMAN (interposing). Well, I did not know but what you could say that there was some effort made to do that or that there was not.

Mr. DENMAN. I am going to outline what we wanted to do and how we shaped it and what happened.

The CHAIRMAN. Is this what was done that you are going to tell us about?

Mr. DENMAN. I am going to tell you what was done.

The CHAIRMAN. All right.

Mr. DENMAN. And I am going to tell you what was not done. I am going to tell you what was recommended and was not adopted. When I proposed to the President the method of division of the powers conferred on him by the Congress in the act of June 15, 1917, the Executive orders that I outlined and suggested made a complete division between the operation of ships as commercial agents and the construction of ships; and the Executive order that was sent to us by the President, following the outline that I had submitted to him, divided the functions of the Shipping Board into two, (1) the construction of ships, and (2) the operation of ships. The manufacture or construction of ships was to be in the Emergency Fleet Corporation——

The CHAIRMAN (interposing). Pardon me, but was that possibly in contemplation when the title "Emergency Fleet Corporation" was adopted?

Mr. DENMAN. I put the word "emergency" into that title to indicate the emergency character of oil-fuel steam engines and wooden hulls. One of them was obsolete; that is, wooden hulls were obsolete as a commercial type when we adopted them. The oil-burning steam engine had its obsolescence already forecast by the leading shipping men of the world, including Admiral Lord Fisher. The purpose of the Emergency Fleet Corporation was to build ships. At that time there were no powers delegated to us to enter into general shipping operations or to control maritime tonnage. Now, to come back to this Executive order, Mr. Chairman, because the separate devolution of power was expressed in the order—the construction of ships was to be in the Emergency Fleet Corporation, and the operation of ships was to be in any one of the three following agencies: (1) The Shipping Board, (2) the Emergency Fleet Corporation, or (3) in any other corporation to be formed by us.

The CHAIRMAN. By the word "us" you mean to be formed by the board?

Mr. DENMAN. Yes. The purpose of mentioning the Emergency Fleet as one of the places where the operating power might be exercised was this: We wanted a separate corporation for operations, but there is a certain portion of operation, in taking the hulls from the point where they are constructed to the place where the engines are installed, in which cargoes are often carried in the hulls, so that there might be a minute portion of operation in the constructing end. But our plan, and the plan I outlined to Mr. Hurley, was to confine the Emergency Fleet Corporation to the building of ships and to a new corporation the operation of ships. My reason for wanting a corporation for the operation of ships was that we could create a corporation that, as I believed, was of a private as distinguished from a governmental character. In handling business on the seas you have got to have the kind of direct executive efficiency that I have found can not be gotten by governmental action. If my plan had been carried out we would have had two corporations, (1) the Emergency Fleet Corporation for the manufacture of these emergency ships and (2) some other corporation for the business operation of ships and transportation.

Now, when I sat down with Mr. Hurley—after I resigned—the first thing I did was to give him, or to outline to him, a project for dividing the two functions of the board, and pointed out to him that the Executive order contemplated a division of the functions, and I thought I had a complete understanding with him as to the advisability of following that course. Unfortunately, it was not done. The operating funds and the shipbuilding funds were commingled, and great and extraordinary accounting difficulties arose, so much so that when Mr. Rosseter came on here, instead of having his energies free for a real constructive program of operations he was very largely occupied in untangling the shipping accounts.

The CHAIRMAN. That is something, of course, that you have no direct knowledge of?

Mr. DENMAN. No; except the knowledge of the shipping world. Every man who has any contact with a shipping company knows that the auditing of shipping accounts, for a long time after I left the Shipping Board, was almost nonexistent. I am speaking now of the operating accounts.

The CHAIRMAN. What experience had you had in shipping, either in building or in operating or supervising, prior to your appointment on the board?

Mr. DENMAN. Oh, I have been connected with maritime matters since 1898. The first case I had took me down the Pacific coast to Central America to get the property of Madame Barrios, the property of the widow of the murdered president. In the course of the proceedings with President Cabrero, I received considerable assistance from the Pacific Mail Steamship Route, which was influential in Guatemala at that time.

The CHAIRMAN. You were counsel for her?

Mr. DENMAN. Yes, sir. While I was counsel for her I established friendships with the leaders of the Pacific Mail Steamship Co., Mr. Schwerin, Mr. Fry, and others, and I have been at some times attorney for the Pacific Mail and at many other times against them, and through them I have had familiarity with many shipping matters. I have supervised contracts for the building of ships. I was attorney for one

of the shipbuilding yards on the coast there that originally built wooden ships but that had ceased to build them before the war and built none during the war. It had become a steelyard. I came in contact with the oil situation as Assistant Attorney General of the United States in control of oil litigation at its beginning, and there made a study of oil conditions. I was attorney for Fred. Olsen's fleet of Diesel motor ships, which for a long time before I went on the Shipping Board had been operating those ships between Scandinavia and the United States. I have operated ships myself; in fact, I have sailed two wooden Huff ships during the last two years over 120,000 miles on the Pacific, and have carried over 200,000,000 feet of lumber. I know something about the wooden ship and its obsolescence and its small remaining usefulness.

The CHAIRMAN. Who fixed the function of division of the various contracts you signed and which had the approval of the board?

Mr. DENMAN. Gen. Goethals and his staff. He had one able negotiator; several in fact, but one I came in contact with, by the name of Mr. Fuller of New York——

The CHAIRMAN (interposing). What were his initials; do you remember?

Mr. DENMAN. I have forgotten his initials.

The CHAIRMAN. Is he of the George A. Fuller Construction Co.?

Mr. DENMAN. No; of an entirely different group. The Fuller I have in mind was a banker but an extremely sharp business man. I judge so from the wails that came in from contractors about him, and from the fact that he always closed his bargain, got what he went after, which meant a great deal. Gen. Goethals in about 40 days' time contracted for 525 vessels, and had the Hog Island project fairly well worked out. You will recall that the press and the public have stated ever since we left the Board that Gen. Goethals resigned and that I resigned because of a conflict over wooden ships. That is absolutely false. There was no dispute between Gen. Goethals and myself over the general wooden ship project, and the general disagreements between us, which were slight, came up in the month of May, and were all solved by the month of June; and the last thing he did on the Board was to declare his allegiance to the wooden ship project and his desire to build all that he could. And he deprecated these statements in the press, and said he had been repeatedly misrepresented by the journalists.

The CHAIRMAN. That was when he resigned. Neither you nor Gen. Goethals made any statement while you were on the Board to the effect that there was no controversy between you about wooden ships, did you?

Mr. DENMAN. Yes, sir; I made a good many.

The CHAIRMAN. To the press?

Mr. DENMAN. Yes, sir.

The CHAIRMAN. Official statements?

Mr. DENMAN. Yes, sir; official statements. The fact was that nobody would believe it. It was one of the most extraordinary things imaginable, the fact that nobody seemed willing to believe that statement. I asked Gen. Goethals, at this last meeting—and we had no idea we were going to resign then——

The CHAIRMAN (interposing). What was that statement?

Mr. DENMAN. We had no idea we were going to resign then, neither of us. I asked Gen. Goethals would he put out a statement, which he did, and I have it here.

The CHAIRMAN. Just before you allude to that, I do not quite understand what you mean. You say that you had no idea that you were going to resign at that last meeting?

Mr. DENMAN. Yes, sir; that was my statement.

The CHAIRMAN. Do you mean to say that when this meeting was held you had no idea it would be your last meeting?

Mr. DENMAN. I had not the faintest idea in the world that it was.

The CHAIRMAN. This meeting was held while this alleged wooden ship controversy was raging, was it not?

Mr. DENMAN. Yes; but the real controversy was over Hog Island. I will read you the record of a statement on wooden ships signed by Gen. Goethals and published in The Sunset Magazine—but he did not write the first paragraph; it is not his style:

On the building of ships to carry the sinews of war may rest the hope of democracy. Activities on the Pacific coast have not been confined to a particular class of vessels. They are constructing ships of both steel and wood; large steel cargo ships, wooden ships complete, and wooden hulls, for which the machinery will be furnished by the Emergency Fleet Corporation. The ready response of the Pacific coast to the country's emergency has been very impressive. The people of that section have seemed to be fully alive to the situation since the Government undertook this shipbuilding program. Notwithstanding the contracts which have been awarded, many additional ships must be constructed, and I confidently expect that the Pacific coast will do its full share. We must have all the ships it is possible to secure, both wood and steel, on contracts satisfactory to the interest of the Government and fair to the contractor.

GEORGE W. GOETHALS.

Now, his other statement at this last meeting, on wooden ships, is as follows——

The CHAIRMAN (interposing). What is the date?

Mr. DENMAN. This is on July 18 and 19, 1917. It is from the minutes of a special meeting of the United States Shipping Board, pages 276-277:

As an emergency measure wooden construction assisted in the program for tonnage, so that the idea that I always had was to go to the production of both steel and wooden ships. I know that I have been misquoted as saying I was against wooden tonnage, but there is no basis for that, and my actions so far in the making of contracts have fully demonstrated this.

The conference continued to the next day, when he added:

As I said on yesterday, I have not been opposed to the wooden ships as I have been reported. I never made that statement. I advocated the use of steel and wood, going to as much of both as we could get. That has been my position all along.

Then I said:

The CHAIRMAN. I know the impression created in the minds of men who went out was that you did not want to build them?

Gen. GOETHALS. I am sorry that impression was created. I do not know how it got out.

The CHAIRMAN. I think from your speech in New York.

Gen. GOETHALS. Unfortunately the speech was not correctly quoted or was misquoted.

Following that he put out the statement I have just read, which appeared in the Sunset Magazine, after we had resigned.

Mr. CONNALLY. You put into the record a moment ago that Gen. Goethals did not write the first paragraph of that statement. Did you mean it?

Mr. DENMAN. I say it was not his style, but he adopted it.

Mr. CONNALLY. Didn't you say he did not write it, and that it was not his style?

Mr. DENMAN. It was not his style.

Mr. CONNALLY. I think you ought to change your statement in the record, because I understood you to say that he did not write it and added because it was not his style. I think it would be a little unfair to put into the record a statement as coming from a man and then say it was not his style.

Mr. DENMAN. Well, the composition was not his style. It was a florid appeal and contrary to and unlike his nature, which is to get a thing done without any unnecessary verbiage. I was attempting to free Gen. Goethals from the charge of journalistic construction, which I think has been one of the features that some of the war instrumentalities suffered from.

Mr. CONNALLY. It occurred to me that you quoted it with approval as to a part of the statement and then said a part was not his.

Mr. DENMAN. Well, I refer to the part as to wooden ships.

Mr. CONNALLY. I do not think it fair to take the part of a statement that is favorable and then deny the rest.

Mr. DENMAN. I do not want to be unfair to Gen. Goethals. The public has treated him unfairly enough in connection with this matter, and I shall not add to it. His accomplishments were great, but they were not in the nature of journalistic shipbuilding; they were in the nature of actual production of ships.

The CHAIRMAN. You say that in 40 days Gen. Goethals let large numbers of contracts for both wood and steel ships?

Mr. DENMAN. Yes.

The CHAIRMAN. Do you know how large a portion of those contracts was completed within the time fixed in the contracts?

Mr. DENMAN. I can not tell you as to that, but I should be able to get it for you if you would like to have it. But I desire to say this, that both in regard to the Hog Island scheme and the wooden and steel tonnage, Gen. Goethals did not have the carrying out of his plan, either for wooden ships or his plan for Hog Island, and if there were deficiencies in the ultimate output they can not be attributable to him—except insofar as the original scheme may have been the cause of it.

The CHAIRMAN. Do you recall whether or not you had some controversy with Gen. Goethals or anybody else with reference to a contract to be awarded to the Downey Shipbuilding Corporation?

Mr. DENMAN. No; there was no conflict over the awarding of the Downey contract.

The CHAIRMAN. Well, over its terms?

Mr. DENMAN. The Downey contract was but one of a group of contracts in which the tentative basic price for steel plate was placed at four and one-quarter cents. I had made some investigation of the price of steel plate, through experts, whose communications were confidential because the steel manufacturers as a whole were seeking a very much higher price than I thought they should have, and a much higher price that they ultimately received—and from an examination of these sheets furnished by these experts I concluded that the proper price for steel plates was somewhere between two and one-half cents and three cents for American construction in the Government programs for the Army and the Navy and the Shipping Board.

Gen. Goethals had had a conference with Mr. Farrell, of the Steel Corporation, early in May or late in April, and as the result of that conference the price of steel plate was tentatively fixed at 4½ cents. I acquiesced in that price at that time. This information I obtained from those experts came after I accepted Gen. Goethals's tentative price of 4½ cents. I later thought we both were going too high, and decided that I would urge a lower price. I understood that he and I were in accord on the lower price. Later we had a meeting with the shipbuilders, not the steel manufacturers but the shipbuilders, in the first week in June, and the question was put to him as to the basic price for steel plate, and he said it would be 4½ cents. Shortly afterwards several contracts, including the Downey contract, were presented with the price of 4½ cents, the tentative price, in them. Now, as to this Downey contract, I requested that the price be changed to 2½ cents, which the general did immediately. So the Downey contract was signed with the amount changed from 4½ cents to 2½ cents. But this was not the Downey contract about which the dispute arose as to Mr. Bolling's participancy in it; that was a contract of the following spring for the construction of tugs. I have never heard of any controversy over the first Downey contract that involved the Downeys. Now, the basic price for steel plate was something that did not concern the Downeys or the parties to the contract, because it was provided in the contract that if the steel plate cost more we absorbed the increased cost, and if it cost less we got the benefit thereof. The point that I made with Gen. Goethals was that 4½ cents appearing as the tentative basis was a very bad bargaining point for us when we sat down with the steel manufacturers.

Mr. Gary later offered me all the plate we needed at 3 cents a pound.

The CHAIRMAN. Does that appear to be a photostat of your signature, Mr. Denman [showing to Mr. Denman the photostat of some paper]?

Mr. DENMAN. Yes, sir; that is mine.

The CHAIRMAN. You do not know why the date of this contract was changed from the 3d of June to the 3d of July, do you, unless it was a typographical error—it was the first Downey contract.

Mr. DENMAN. I can not recall, Mr. Chairman.

The CHAIRMAN. Did you, while you were chairman of the board, make any contracts for Diesel engines?

Mr. DENMAN. The Diesel project I brought to the board as my contribution to the commercial future of the American merchant marine. The Diesel motor ship has been used on the seas from 1904, very largely in the Baltic and Black Sea trades, and—

The CHAIRMAN (interposing). Perhaps you can answer this question: Did you make any contracts for the Diesel engine while you were chairman of the board; and then we will ask you with reference to the matter over there?

Mr. DENMAN. I procured a plant, the license for the Burmeister and Wain Diesel, the standard Diesels of the world then, and which since have been adopted by Lord Perry and others for use in Diesel manufacturing plants in Great Britain—

The CHAIRMAN (interposing). Can't you tell us whether you made any contracts for Diesel engine ships?

Mr. DENMAN. Oh, yes. We did not get further than the presentation of the contract for our signature; it was not signed by the board.

The CHAIRMAN. Will you give us the reason why the contract was not signed?

Mr. DENMAN. Because we were debating as to whether or not we would accept the contract or would commandeer the plant and run the plant as a national project. That was to be settled on July 24, the date that we both resigned.

The CHAIRMAN. Before I ask you with reference to this Diesel proposition, when first did you know that you were to resign?

Mr. DENMAN. On the 24th of July, 1917.

The CHAIRMAN. And who asked you to resign?

Mr. DENMAN. It was contained in a communication from Mr. Wilson.

The CHAIRMAN. President Wilson?

Mr. DENMAN. Yes.

The CHAIRMAN. While you were on the board did your board have charge of reconditioning some of the former German ships?

Mr. DENMAN. Quite a number.

The CHAIRMAN. And had any of them been transferred to the Navy prior to your resignation?

Mr. DENMAN. Yes; a great many were transferred to the Navy as soon as formal seizure was made. That is, those ships that were cargo carrying ships; that type we kept—and some were of the passenger carrying type—and I think in the month of May some of the latter went over and some in the month of June. You will remember that the German ships were injured as to their engines by their engineers; and the Austrian ships also, but not so badly.

The CHAIRMAN. Were there any ships upon which the Shipping Board was at work reconditioning which were transferred to the Navy Department or the War Department while you were the chairman of the board?

Mr. DENMAN. I think the work of reconditioning of some of these passenger ships had started. Whether we began the organization for the reconditioning of those ships—and I can no doubt give you the date here [looking among his papers]—no; I have not the date, but it was just after we declared war, in the month of April, 1917, that we appointed a committee in New York for the purpose of undertaking the repair of these vessels and their operation—and we had nearly all the repair facilities on the Atlantic coast tied up and engaged in their reconditioning by the 1st of May or thereabouts, long before the actual allocation was made to the Shipping Board. You will remember that in those days we were doing things regardless of authority. When I got above \$100,000,000 in contracts that I had illegally signed I felt safe; and Mr. Hoover, just after that, got up to over \$50,000,000, and both of us congratulated ourselves that we were beyond the point of suit, as neither of us could meet judgment.

The CHAIRMAN. Now, then, returning to the matter of the Diesel engine: Were there any plants in the United States manufacturing Diesel engines?

Mr. DENMAN. The following plants were manufacturing Diesel engines:

1. Nordberg Manufacturing Co., Milwaukee, Wis.
2. McIntosh & Seymour, Auburn, N. Y.
3. Skordie-Pacific Oil Engine Co., San Francisco, Calif.
4. Dow Pump & Diesel Works, Alameda, Calif.
5. Worthington & Holly Works, Buffalo, N. Y.
6. Fulton Iron Works, St. Louis, Mo.
7. James Craig Diesel Works, Jersey City, N. J.
9. Midwest Engine Works, Indianapolis, Ind.
10. Winton Engine Works, Cleveland, Ohio.
11. New London Ship & Engine Co., Groton, Conn.
12. Burch Sulzer Diesel Works, St. Louis, Mo.

The last two were manufacturing for the Navy. You will recall that the Navy made very large use of Diesels before anybody else did in this country.

Now, these companies were manufacturing land Diesels, and some small marine Diesels, but the standard Diesel license at that time was not being utilized in the United States. All of these factories could have manufactured standard Diesels of the type used in the Danish East Asiatic fleet for many years before I went on the Shipping Board.

The CHAIRMAN. Had the manufacture of Diesel engines at the time you were chairman of the Shipping Board progressed beyond the experimental stage?

Mr. DENMAN. I hand you, sir, a photograph of 21 ocean-going Wiesel ships, then sailing the seas, and of tonnage running from 6,500 tons dead weight to 10,000 tons deadweight. This is a single fleet, the output of a single yard. Nearly all these ships were operated by the Danish East Asiatic Co., which sailed from Copenhagen through the Mediterranean to the East Indies, up the China coast, across to San Francisco, and around through Magellan, and then to Europe. Many of these vessels were for over a year at sea and no engine troubles developed that at any time interfered with their operation. They consumed about one-third the amount of fuel that our oil-burning turbine engines consume; and because they have no boilers and no condensers, and because they only have to carry one-third of the amount of fuel, which is carried in their ballast tank, they have an increase of 12 per cent in cargo capacity over the ordinary commercial types of tramp steam vessels. It was this demonstration, these years of use of these vessels, that had satisfied every man who knew the world game of shipping that these were the only type to be used by a nation having a fuel oil supply, long voyage commerce, and bulk cargoes to be carried.

The CHAIRMAN. How many contracts had you made and that you had not signed; or, for how many ships, as nearly as you can recall.

Mr. DENMAN. My recollection is that I had signed for as many as over 400 ships, and that on my desk were, awaiting my signature when I resigned, or when I received the suggestion of my retirement, some 70 or 80 ships more. These figures are approximate.

The CHAIRMAN. All of those to be with Diesel engines?

Mr. DENMAN. Oh no; I am referring now to all ships. I thought you meant contracts generally for ships.

The CHAIRMAN. No; I asked you how many contracts you had signed for Diesel engines; or, how many ships had you negotiated contracts for that were to be equipped with Diesel engines.

Mr. DENMAN. The project which we had was primarily for the manufacture of engines; to get established in this country——

The CHAIRMAN (interposing). For how many?

Mr. DENMAN. They were to turn out in the Cramps organization 24 Diesel motor ships of 9,600 tons deadweight capacity, with a gain of 12 per cent over the other types. That is to say, they would have been 12 per cent over the 9,600 deadweight capacity, and of 11.6 knots speed on trial trip. Now, this limitation of 24 ships was a limitation of the yard's capacity, of the Cramps yard, and contemplated two years' construction. The engines and the engine plant could be tremendously expanded, from the license used in other Diesel engine plants, which I have described here, and a vast fleet of them could have been prepared for.

The Diesel engine consists of some four to six units arranged along a shaft in very much the same way as the cylinders are arranged in an automobile. The consumption of oil, however, or rather the burning of oil, is entirely different from that in the case of the automobile, as it is not by explosion in the cylinders of gas as in the case of the automobile but consumption or burning of oil in the cylinders of the Diesel engine. These six units would be smaller in size and have smaller parts, but of similar power to steam reciprocating engines, and the multiplication of parts by the process we Americans are familiar with would have enabled us to turn out very large numbers of Diesels, probably as rapidly as we did our steam engines.

The CHAIRMAN. If I understand your testimony correctly it is that while these various firms you have enumerated were making Diesel land engines and small Diesel marine engines, none of them had manufactured Diesel engines of sufficient size and power to be installed in these ocean-going steamers, not until the time that you had laid out this program.

Mr. DENMAN. They had built many engines of size and power, but they were not marine engines. In other words, they were equipped to build marine engines provided licenses and drawings were furnished to them.

The CHAIRMAN. Was there a single steamship company operating, a United States corporation, an American steamship company, that had any ship constructed in which had been placed the Diesel engine, at the time you were chairman of the board?

Mr. DENMAN. The United Fruit Co. I believe had a Diesel engine ship, but you will remember that our American merchant marine was not particularly prosperous up to the war, and that during the earlier years of the European war there was very little stimulation of it.

The CHAIRMAN. Do you mean prior to the war in 1914?

Mr. DENMAN. Yes, sir.

The CHAIRMAN. But were there lines operating ships in which were Diesel engines that visited American ports?

Mr. DENMAN. Yes; the Danish East Asiatic Co., the Swedish East Asiatic Co., Fred. Olsen's line, and others. The first Diesel to come into the port of San Francisco was the *Siam*, a 10-000-tonner, which arrived there in the year 1913. I remember that the entire water-front group, the shipping group, went down and visited her. There had been a number built before her. She made a voyage

around the world, and I think one or two voyages, with this consumption of oil I have described.

Among the ships coming in, of the fleet that I represented, Olsen Fleet, there was a 9,600-ton Diesel engine ship, the *George Washington*, which I, as his broker or agent, chartered to the Navy in the fall of 1916. She carried coals from the Delaware Capes to the San Francisco Bay, and made the voyage with her usual economy and efficiency. The *George Washington* was one of the later built vessels, before I went on the board, but the designs were very little different from the *Selandia*, which was of the first group built in 1912, and started on her first trip in February, 1912. The *George Washington* was afterwards chartered by the Shipping Board, in the fall of 1917, and the Shipping Board experts made a voyage on her. I have seen their report. In every respect it confirms the statements I have made here concerning the efficiency of these vessels, and that was a Shipping Board voyage and the least expensive and one of the most profitable voyages made by any Shipping Board ship.

The CHAIRMAN. Were there any plants in this country that were sufficiently well equipped to have undertaken the construction of marine Diesel engines for these other ships which were contracted for as the result of the war emergency, on a large scale?

Mr. DENMAN. Yes; this list I have given you, all of them have been completed in plants manufacturing these large size Diesel engines. It was a question of design of engine and of license to use them; we built and expanded a very large number of steam engine plants, built new ones and expanded them, and the parts to be made in a steam-engine plant are very much larger than the parts to be made in these plants. The metallurgical defects in the Diesel which bothered the Diesel manufacturers in 1904, 1905, and 1906, had all been solved. Our mechanics, men who turned out automobiles and the Diesel engines for submarines, our mechanics in this country are as skilled in construction and even more so than mechanics in Europe. It is all hocus pocus and a defeatist policy to talk about the superior ability of Danish and Swedish and other European mechanics. They have not come up to us in the matter of motor vehicles in any kind of mass production.

The CHAIRMAN. Had any policy been adopted in the Board prior to your resignation for the construction of any large number of Diesel ships, outside of these 24 that had been arranged for?

Mr. DENMAN. Outside of the 24 arranged for?

The CHAIRMAN. Yes.

Mr. DENMAN. Yes; the policy of developing a plant for the construction of engines beyond the hull capacity of the Cramps yard.

The CHAIRMAN. But, Mr. Denman, you had already signed contracts for some 400 ships, and there were some 70 or 80 other contracts on your desk awaiting signature.

Mr. DENMAN. For 70 or 80 ships?

The CHAIRMAN. Yes; contracts for 70 or 80 ships on your desk awaiting signature at the time you resigned. Those contemplated putting in the steam marine engines, did they not?

Mr. Denman. Oh yes. We had the plants. We had to get the tonnage. The sinkings by submarines in the months of February, March, April and May, in which we developed our program, were at the rate of 13,000,000 dead-weight tons per annum. Sinkings in the

months of May and June would have equaled all the wooden ships at our highest estimate of production in two years; just two months of sinking would have equaled that production, and a shade over. We had these large steam-engine plants in the country, and of course the only thing to do was to build every steamship we could. The idea I had was that when we came to expanding any then existing steam plants and building new steam plants, that some of this billion dollars we were spending should go in for these matured types of Diesel engine—not that the whole thing should be steam production, because we could not have gotten that, but that carefully we should insert in the American fleets this type of engine.

The CHAIRMAN. Do you know of your own knowledge whether or not those contracts were signed by your successors?

Mr. DENMAN. They were not.

The CHAIRMAN. Do you know of your own knowledge whether any Diesel-propelled ships were contracted for by the Shipping Board after you resigned?

Mr. DENMAN. Not one. In all the 8,000,000 tons that we had contracted for there was but one motor ship, which has not yet reached her trial trip. The engines in that ship were procured from Burmeister & Wain, in Copenhagen, and sent over here, and they waited here for nearly a year before they installed them. And the vessel has not yet been tried out. The dispute that the fleet of ships—and three times as many are on the sea, with Burmeister & Wain engines—the dispute that they are talking about, that this ship is of an experimental type, and that they are experimenting with the Diesel engine, which for eight years has been sailing the seas everywhere, and for whose efficiency reports are available, the Danish East Asiatic Co. puts out its statements—and they will give any information that we want—I say, there seems to be that dispute, and we are talking about experimenting with a Diesel engine ship some time within the next eight months, and it is all in the face of this experience that I tell you about.

The CHAIRMAN. We have had some testimony to the effect that some Diesel engines were being constructed in a certain plant, and which engines had been tried out and proved to be failures. Do you know of any such engines having been made for the Shipping Board, of your own knowledge?

Mr. DENMAN. Well, of my own knowledge it only goes to points I have read in the technical journals. No contracts have been let for Diesel engine units of sufficient size to propel a 10,000 ton or 8,000 ton vessel at proper speed for modern commerce. Some small engines were ordered to be constructed in several plants, but none of them would have been commercially available in competition on the sea. Whether or not they were a success I do not know. But I do know that not a dollar of these billions of dollars that have been spent has been spent for the construction of a Diesel engine of sufficient size to drive any 10,000-ton ship at a speed of 10 knots.

The CHAIRMAN. Did you procure these licenses in your official capacity as chairman of the Shipping Board?

Mr. DENMAN. They were procured through the Cramps who operated on an American license, but they did not have the drawings that they wanted and through Frank Polk correspondence was taken up —

The CHAIRMAN (interposing). Through whom?

Mr. DENMAN. Frank Polk, Assistant Secretary of State. Correspondence was taken up with the Danes, and the equipment that the Cramps people desired, or the information they desired, was secured.

The CHAIRMAN. Were they in any position to have undertaken the construction of these Diesel engines had the contract been signed?

Mr. DENMAN. Beyond any question.

The CHAIRMAN. Why didn't you sign the contract?

Mr. DENMAN. These contracts were presented to us two days before our resignation. We were discussing whether or not we would commandeer the plant and make it a national scheme, like the Hog Island scheme, and we were considering whether we would sign the contracts, and, as I say, the request for our resignations came at this time. The first thing I did was to take the matter up with Mr. Hurley. I told him of these other contracts in contract form, ready for signature, that they were in the files of the Shipping Board. I told him of the experience of the Danish East Asiatic Co., and of the Norwegian and Swedish fleets, and urged him to take up the project. I then went to New York, where I met Mr. Fritz Olsen, a son of Mr. Fred. Olsen, and told him what I was trying to do, and he suggested that the *George Washington*, a 10,000 tonner, should be put under the American flag, so that the Shipping Board could have a direct and practical trial with it, and study its workings, if they were not satisfied with the innumerable trip reports of all these various owners. I rang up Washington to see if I could get hold of Mr. Hurley, and found he was in Chicago.

As I went west I stopped off and spent half a day with him at Chicago, and asked him to enter into negotiations with the Olsens for putting the *George Washington* under the American flag. That would have to be a matter of bargaining with them, because they would want to have a certain number of free trips, as they were free when they remained outside of us. I wired Mr. Hurley afterwards about it, and he wired back that they were not going ahead on it. I came on again in the following January, and again urged him, and he seemed to be very much interested, but besides writing some magazine articles we have gotten on nowhere.

The CHAIRMAN. Were you the representative of any firm or ship operator prior to your appointment as chairman?

Mr. DENMAN. Oh, of a great many. I had had general maritime practice.

The CHAIRMAN. Did you represent any Diesel engine manufacturer?

Mr. DENMAN. No; neither before nor since. As a matter of fact, I have talked with no Diesel engine manufacturer in the last year and a half about Diesels, have not talked with one. I do not have my memorandum here, but I came on to try some cases here in the east, and heard that you were going to call me, and I have availed myself of the library of the Motor Ship, a publication in New York. I had some discussion there with some men disconnected from my plant.

The CHAIRMAN. Did you represent some steamship line that operated Diesel engine property, shipping?

Mr. DENMAN. Yes, sir; I represented the Olsen line, and it was the Olsen people that offered to put the *George Washington* under the

American flag, so that the Shipping Board could have it directly under its inspection.

The CHAIRMAN. Was that done?

Mr. DENMAN. It was not done, but the *George Washington* was chartered by them as I have described, late in 1917.

The CHAIRMAN. Did you usually take two days with contracts coming to you, to decide whether they would be signed or not?

Mr. DENMAN. Oh, it depended on the questions involved. I might take a week. But there was no delay in the signing of contracts. But if you take a pile of contracts that high [indicating about a foot] with the other administrative duties of your office, it can not be done in the wink of an eye.

The CHAIRMAN. Did you inaugurate any policy whereby this vast number of contracts for the construction of ships, steel ships and wooden ships and certain specified classes of tonnage, was to be constructed under a uniform form of contract, the main conditions of which were to be uniform in all cases; or did you make the best bargain you could with the various contractors?

Mr. DENMAN. Our contracts were fairly uniform, up to the time when I left the Board. There was, of course, a great deal of discussion as to what was the best type of contract to be used. There had been four methods of making contracts usually with shipyards ever since I have been practicing law and perhaps for a hundred years before that: (1) There is the pure lump-sum contract, in which the completed ship is to be furnished for a definite amount, and the risk is taken by the manufacturer; (2) there is the lump-sum contract with variable on certain items about which there may be doubt; the lump-sum figure remaining, but there being added to it or subtracted from it a certain amount as the items of cost may be more or less; (3) there is the cost plus a fixed fee plan. These are all old shipping methods of contracting. In the cost plus a fixed fee the owner pays the entire cost but the contractor gets a fixed fee, which does not increase or decrease with the actual cost of the vessel. (4) Then there is the pure cost-plus plan, which was for many years used by the Navy, surrounded by certain restrictions as to inspection, in which the United States or the other party having a ship constructed, pays all the cost plus a percentage which is fixed on the total cost of the vessel.

We very early gave up the idea of having a lump-sum contract pure and simple, because of the vicissitudes of labor and material facing us; they were so great that nobody would take a contract of that kind. Nearly all contracts I signed were for lump sum with variable allowance for additionals in the case of material and in the labor scale. By this method the profit of the manufacturer was not increased by the increased cost of the vessel, so that he would be tempted to run up prices on us, but he was protected with regard to certain items about which future prices were doubtful.

The CHAIRMAN. Did you sign any contracts for cost plus?

Mr. DENMAN. Not one. There were some cost plus a fixed fee, perhaps, but I do not recall whether I signed them or not. Frankly at this moment I can not recall. But there were no cost-plus contracts by which the contractor by increasing the cost of the vessel could increase the amount of his compensation.

The CHAIRMAN. Well, did you sign any contracts under the cost-plus plan, either cost plus a fixed fee or cost plus a percentage, in which the contractor was permitted to charge a percentage upon the increase in materials or increase of wages, both of which were made by the Shipping Board or Emergency Fleet Corporation?

Mr. DENMAN. Not one. Both Gen. Goethals and I were strongly opposed to that system.

The CHAIRMAN. Now, with reference to the steel and wood ship program, What was the policy fixed by the Board while you were chairman, Mr. Denman, as to the relative number of wood ships to be constructed as an auxiliary, if that is a proper term, to the steel fleet?

Mr. DENMAN. The policy that was adopted was the outgrowth of our early experiences with the manufacturers and our foreign boats when I first came to the board. Answering your question directly, the policy that was adopted—as announced by me two weeks before we engaged Gen. Goethals, and afterwards announced to the Congress in a letter the board wrote on the fifth of May, 1917—was substantially this: That we should obtain legislation which would enable us to shut down high building construction and bridge construction and all other forms of nonwar steel manufacture, and drive into munitions and ships all that material; expand the steel plate rolling business as far as we could go to the building of fabricated ships in several plants; and to build as many wood ships as we could without disturbing the steel program.

The wooden ship project was brought to us by Mr. F. A. Eustis, a well-known yachtsman and manufacturing metallurgist. He came to me in the latter part of February, 1917, and urged us to build as many wooden ships as we could on account of the sinkings in the north Atlantic, then becoming very large. I knew about the wooden ship, because as I say, I was attorney for a wooden ship plant, and had litigated many ships of wood construction, and was familiar with their hulls, and particularly with that type of large wooden steamer that was used in the coastwise trade on the Pacific. I told Eustis that I did not think we could get the engines but I knew we could build the hulls. He said there was a large number of factories in the Ohio and Mississippi Valleys that could build engines sizable for these wooden ships.

I then said I did not believe we could persuade the Congress to accept such a program; that as the ships were commercially obsolete there would be such an outcry against them that the Congress would not go on the venture. He said to me "Well, if you can get behind you some of the biggest men in the country do you think the Congress would accept?" I said, "Yes, but where are your men, who are your men?" He mentioned a group of men, and I think Gen. Goethals. I said, "If you can get that group, or the General himself, to advocate the building of wooden ships I think the Congress would be willing to accept the project, always as a supplemental fleet to steel." About a week after that Eustice came into me and said Gen. Goethals was in our drafting room. I went in and met him. During that conversation he had on his lap plans of these two wooden Huff ships that I have operated myself.

The CHAIRMAN. The Huff type.

Mr. DENMAN. Yes, sir; the wooden Huff type of ship. They were smaller than the ships we afterwards constructed, but they were stronger and were successful, as were both types. Gen. Goethals said, "Denman, this is what you want to do. Sinkings are so great in the Channel and in the North Sea that you ought to build as many as you can." The discussion lasted some time, and Mr. White and Mr. Brent and a number of others I recall were there. He left, and as he left he said, "Now, anything I can do to help you out on this I will be glad to do." I think what the General had in mind at that time was if we wanted to call him before a Congressional Committee he would be glad to offer his services. But I took it to mean that if we wanted to call upon him as constructor to assist us he would be glad to do it.

Gen. Goethals was not seeking a job, and I did not have that in mind, but I offered him \$50,000 a year, or suggested that as an amount, and he laughed and said, "No; I will take my Army pay." There was never any question of pay about the General. He is a mighty good American. About ten days after that I went to New York and announced our steel major program and described in detail at a meeting in New York at the Chamber of Commerce our wooden program. This was the day before war was declared. The country was in a state of hysteria, and over night the journalists of New York built me a bridge of wooden ships from New York to Liverpool, over which the victorious army of American people and the sutlers' wagons were going over to succor Europe. It was absurd. In those reports there was nothing said about our major scheme of building steel ships; but, fortunately for the record of the thing, my speech was taken down and afterwards published.

About a week after that I went to the President and asked him to call General Goethals to assist us in the building of our war tonnage. And the President did call him, and General Goethals did come to us, and he did build all the steel, or started, initiated the building of all the steel and all the wooden ships that could be built. Where the controversy story came out about wooden ships——

The CHAIRMAN (interposing). Did I understand you to say that Gen. Goethals started the construction of all the steel and all the wooden ships that could be built?

Mr. DENMAN. Started with that plan in view, yes.

The CHAIRMAN. But he did not sign all the contracts that the Shipping Board awarded for ship construction?

Mr. DENMAN. No. He started with the campaign of building all he could, and during his limited time we signed all contracts for both types of ships, he could get. We both detested the idea of wooden ships. We knew they were obsolete. Gen. Goethals—and I think I will not hurt his feelings in saying it—is not a diplomat, and he expressed his disgust, as I did on many occasions, and certain of the journalists I think received the impression that his dislike for that type of ship for commercial purposes was addressed to the project of building them for the war emergency. As a matter of fact, I was under the impression that he had said to various men that he did not want to build wooden ships, and later, after I left the board, the explanation came out that he had said that, but that he was referring to the fact that he did not want to build them with commercial use in view. But from the first of June until we left there was never the

slightest flicker of difference between Gen. Goethals and myself on the project of building as many wooden ships as we could.

The CHAIRMAN. Did you have any controversies with him over the matters which may have been the cause for his resignation?

Mr. DENMAN. The real difficulty that arose between the general manager and the board—and it was not between Gen. Goethals and me, but between Gen. Goethals and the Shipping Board—arose out of the division of authority that was made by the President. In the month of June there was the question in the President's mind as to whether or not the entire building program should be given over to Gen. Goethals as general manager, or whether it should rest with the Fleet Corporation—that is, with Gen. Goethals as general manager or any successor to the general as general manager. The President decided, in accordance with the suggestions of the Shipping Board, that the power should rest in the Emergency Fleet Corporation as a corporation and not in the general manager as an individual. Gen. Goethals, despite this, assumed that as to the responsibility for the program of building ships it was upon him, and the board as directors of the Emergency Fleet Corporation knew that by the terms of the order they were responsible to the Congress, and that they would have to account for their expenditures, and also make the applications for money.

The Hog Island enterprise was then being drawn together by Gen. Goethals and the board insisted that the general take the matter up with them and explain with some outline that would be comprehensive, just what the Hog Island project was, so that we could outline to the Congress and appear before your committees here and get our appropriations. Now, Gen. Goethals did not want to waste the time of talking with us—and I can sympathize with him, because, gentlemen of the committee, board management is not efficient for rapid business, and we were debating during the period of a week prior to our resignations the provisions of the proposed Hog Island contract. That was the dispute, if you may call it that, that was the immediate preceding incident to the request for resignations. There was nothing about wooden ships in it.

The CHAIRMAN. Did any controversy which arose between you and Gen. Goethals, or between Gen. Goethals and the Shipping Board, or between the general manager of the Fleet Corporation and the Shipping Board, result in delay in the awarding of contracts or negotiations for contracts or in the beginning of the actual construction of ships?

Mr. DENMAN. Not one. There was no delay other than the move arising from my suggestion as to the cost or the price of steel. Of course, those things are essential in the beginning of a project. There were no delays that I know of. He certainly did not hamper me, and I am certain that I did not hamper him. And the matter was practically, all of it, newspaper matter.

The CHAIRMAN. Do you recall having awarded a contract for the construction of ships to the Sloan Shipbuilding Corporation, or some concern of similar name, on the Pacific coast, and the making of a payment of \$830,000, or some such amount, approximately that sum, as an advance payment on one check, for the construction of ships in a yard where there was no way or other plant equipment?

Mr. DENMAN. I do not know anything about that, Mr. Chairman. It happened entirely on the managerial side, although I may have signed the Sloan contract.

The CHAIRMAN. Did you know that it provided for an advance payment for that amount at the time you signed it?

Mr. DENMAN. I know with regard to stimulating new yards, that I took the recommendations or arrangements of Gen. Goethals without comment. In each case judgment had to be made as to whether or not the tremendous need for vessels required Gen. Goethals to take a chance as to the solvency or efficiency of the contractor, and I did not feel that it was up to me, on the operating and planning end with all the other things I had, to interfere with the decisions he made. If I had, the general would have had the right, in my opinion, to make the criticism that has been made from time to time on the board, on us, that we were falling over one another.

The CHAIRMAN. You had to sign those contracts, didn't you?

Mr. DENMAN. Yes, sir; I did.

The CHAIRMAN. When you had a pile of contracts such as you indicated a while ago, about a foot high on your desk, didn't you have a brief or a summary of what the contracts contained?

Mr. DENMAN. No; they were nearly all of uniform form.

The CHAIRMAN. But this one was not.

Mr. DENMAN. I do not recall the terms of the Sloan contract. But the understanding was from the beginning that Gen. Goethals from the time of his arrival there until his departure, should be supreme in his contact with the contractors and that I was not to interfere. It was only in the question of types and the general fundamental policy that the board over him was to participate in the shipbuilding program.

The CHAIRMAN. Well, was he to be supreme in the location of new plants?

Mr. DENMAN. Exactly.

The CHAIRMAN. And the number of ships that were to be built?

Mr. DENMAN. Well, there was no limit to the number. It was something along this line, as many as they could build. But you can see with the mass of contracts that were let, decisions had to be made very rapidly and that was his job.

The CHAIRMAN. Was he to be supreme in the number of ships the new plants were to build?

Mr. DENMAN. He was.

The CHAIRMAN. Was he to be supreme in the matter of the price they were to receive?

Mr. DENMAN. He was, barring the questions of such raw material as steel.

The CHAIRMAN. Was he to be supreme in the matter of estimates upon which advances were to be made?

Mr. DENMAN. He was.

The CHAIRMAN. Was he to be supreme in the matter of the share which the Government should pay in the construction of new yards, installation of shipbuilding equipment?

Mr. DENMAN. He was.

The CHAIRMAN. And all those matters and many others of similar character were to you, as chairman of the board, matters of detail, I assume, over which you exercised no supervision.

Mr. DENMAN. That is correct, nor could I have done it.

The CHAIRMAN. And the only thing you did as chairman of the board was to sign contracts whenever they came up bearing Gen. Goethals' approval.

Mr. DENMAN. And to endeavor by a study of them to keep the contract and what was going on in mind and be in a position to defend the general program when called before the committees of the Congress.

The CHAIRMAN. Assuming that a shipbuilding concern on the Pacific coast had one yard, say at Olympia, of limited capacity, not exceeding four ways; that they desired to secure a contract from the Shipping Board for the construction of ships, and had in mind establishing a plant at Anacortes, State of Washington, at which point there was no way or yard or equipment or any facilities for building ships—

Mr. DENMAN (interposing). Wood or steel?

The CHAIRMAN. Either, but these were wooden ships. Do you know of any reason why such a concern should receive a contract for building ships at their Olympia plant and also for the establishment of a plant at Anacortes, and be given a check for some eight hundred and odd thousand dollars, with a provision in the contract that future payments were to be made when they could satisfy the Shipping Board that they had ordered material or created liability?

Mr. DENMAN. Well, I have —

The CHAIRMAN (interposing). Assuming those facts to have existed at the time you signed this contract, I mean.

Mr. DENMAN. I can give a number of suggestions regarding that situation: In the first place, was the plant they had coupled with the material they would buy with the \$800,000, security for that \$800,000? I do not know that. Second, were the housing and labor conditions at the second location such as to make it desirable to have a new plant established there, for the loggers and bridge builders and lumbermen of various types, at the second place that were not at the first, for the convenient building of ships there? I do not know that. I do know this, that in my logging operations—and I am logging in a forest some eight billion feet of fir—we scatter our operations there so as to bring the chief operations of the forest near villages and towns, where we can get our labor from the villages and towns to do the work. I do not know about the Anacortes matter. I could not help you on that. It may have been a break. They were going very fast.

The CHAIRMAN. Mr. Denman, isn't it your judgment now that a good deal of the haste which was shown in the executing of contracts in those early days, with the hope and expectation of securing ships within a reasonably short time, was not well founded, and that unusual delay resulted in the delivery of ships because of the haste in executing contracts?

Mr. DENMAN. There was that element in it, Mr. Chairman. But I want to say this about it; we were not building any ships in this country, and we had to get the minds of men riveted on the creation of specific plans. Now, until you had hooked a man by contract, had nailed him down by an obligation to build, you did not get any constructive results in these new building entities. Our scheme was to hook as many as we could; get them nailed down and get them

going. Some would fail, but the most of them we hoped would succeed. And we contemplated that there would be great waste. We were very glad that it was not as bad as it was with airplanes. We were certain that by this process we would get men to do something they had never done before, and that we would, first, have to overpay them to get them going; and, second, that we would have to anticipate that a number would not be successful. Now, if I were going through the same thing again, and were in charge, as I was not, of building ships, I would do just as Gen. Goethals and Mr. Schwab did. Mr. Schwab, I think, made the greatest contribution of anybody, of all of us, to the shipbuilding program. Mr. Schwab is not a detail man, and he is not a detail executive. But Mr. Schwab would take a fellow and by some almost mystic process that he had, would take a fellow who wanted to build 2 ships and nail him down for 10; and by the time the fellow had gotten out of the office, and he was signed up for 10, he was getting his men, superintendents and organization, for the building of 10 ships and possibly out of it we would get 5.

The CHAIRMAN. Possibly you would get five what?

Mr. DENMAN. Five vessels.

The CHAIRMAN. Delivered?

Mr. DENMAN. Delivered; yes. I mean to say that we had to take fellows, many of whom had never built ships—and as I remember the Skinner & Eddy group, who made such a marvelous success, had never been in the shipbuilding business, in a large way at least. And when I say a marvelous success, I mean in rapid construction of tonnage. You will remember that they took a sand spit, with brush on it, and in 10 months had a trial trip of an 8,000-ton ship. And that was done on what had been 10 months before a sand spit.

The CHAIRMAN. And they took over a yard next to them?

Mr. DENMAN. Yes, sir; and they drained existing yards of workmen, up and down the coast.

The CHAIRMAN. The Macey award did not bother the Skinner & Eddy contract very much?

Mr. DENMAN. Oh, no. I am not defending the methods pursued, but what they did was a marvelous accomplishment in getting ships out. The great trouble we had all over the United States was in adjusting all these different fellows, their individual demands for labor and supplies. But you can not get me to defend the theory, or hope for me to defend the shipbuilding program of ourselves or any of our successors on the ground that it was not wasteful; the very method involved the certainty that a number of the men we got would be very wasteful indeed.

Mr. FOSTER. Did you sign the Skinner & Eddy contract?

Mr. DENMAN. I do not recall. It was under consideration when I was there and I think I did.

Mr. FOSTER. Do you remember that there was some feature of that contract providing that a government auditor would not be allowed to go in and take charge there?

Mr. DENMAN. No; I do not recall that.

Mr. FOSTER. Do you remember any of the features of that contract at all?

Mr. DENMAN. I am not familiar with the plant at all, except that the first ship——

Mr. FOSTER (interposing). I mean the contract.

Mr. DENMAN. I am not familiar with the terms of the contract or with the plant.

Mr. FOSTER. You do not know of an reason why any such feature should have been in there?

Mr. DENMAN. Why an auditor should go there and not to other plants?

Mr. FOSTER. No; just the other way, why an auditor should not be allowed to go there? They are up at Seattle, aren't they?

Mr. DENMAN. Yes, sir. Really I can not tell you. I presume it it was a break.

Mr. FOSTER. You do not remember that you signed any contract with them, whether you did or not?

Mr. DENMAN. I do not recall. I know that Skinner & Eddy were under discussion at the time, and they were building a very large number of ships when we organized the board.

The CHAIRMAN. You stated in reply to my last question that waste did result from the shipbuilding program.

Mr. DENMAN. Yes, sir; an enormous waste.

The CHAIRMAN. Do you think that as it has turned out that the particular contribution Mr. Schwab made, which you have indicated, of getting men who wanted to build 2 ships make a contract for 10 and who delivered 5, and then filing claims for the remaining 5, which called for large expenditures of money, is really a commendable contribution to the shipbuilding program.

Mr. DENMAN. No; I did not mention the latter portion.

The CHAIRMAN. But I did.

Mr. DENMAN. We are now talking about paying for the dead horse.

The CHAIRMAN. As the result of creating enthusiasm of the builder to take 10 ships when he was only able to take 2, and bringing about this result, do you think that a good thing?

Mr. DENMAN. Mr. Schwab is the best man to defend that policy.

The CHAIRMAN. I am not asking you to defend it, but you spoke of that as being a contribution to this work.

Mr. DENMAN. I am not attempting to defend it. But you are asking my opinion, and I want to state what the facts are.

The CHAIRMAN. I wanted to get what you thought of that.

Mr. DENMAN. I want to tell you what the facts are, no matter whether it hits me or whom it strikes. This thing is sometimes overlooked: The Army asked us to prepare for a four-year war. You know you have to have a program, huge in general outline, and Secretary Baker, and I think it was Admiral Benson or Secretary Daniels, advised us that as things looked in 1917, even if we might be able to shorten the war, that we should make preparations on the theory of a four-year conflict. Now, those deliveries that my administration would have been responsible for had we carried out our original contracts contemplated about a two-and-a-half-year to a three-year program. What Mr. Schwab had in his mind at this time I do not know.

The CHAIRMAN. What were you doing, Mr. Denman? You said you had no time to examine those contracts, to examine what the particular features of them were; what were you occupied with?

Mr. DENMAN. I do not think I quite said that, Mr. Chairman. I said I had to wait sometimes before I could make an examination of contracts. I attempted to go through them, and there were many

of them identical except as to minor provisions of price. I was doing many things. It is very hard to draw a picture of the war activities there, and a discussion of that kind would involve the whole question of board management, on which I have very definite opinions. I agree with Gen. Goethals, though not in the phraseology used, that board management can not successfully conduct large vital enterprises where the results must be produced either in competition with national competitors or to meet an emergency quickly. And, as a matter of fact, the work that was done by all the administrators in Washington was very largely done on their own initiative with comparatively little board concurrence in the projects that each undertook. For a period of between four and five weeks I scarcely ever appeared at the meetings of the Shipping Board. I arranged with Mr. Brent, vice chairman, the detail business of the day, days filled with little questions as to whether or not we would let a tug go over to Canada, or a ship go to Cuba, or an ice breaker go to the White Sea—things that had to be done but that had nothing to do with the fundamental policies or with obtaining legislation. And the board bore with my absence with some degree of kindness. During that time I was mainly with the Congress.

I was also one of three conferees that sat with the British Commission in the harmonization of the administration of ships between the Interallied Charter Commission and the Allies. There were many things to be harmonized in Washington, and there were grave difficulties there because of the very strong and almost hysterical sentiment that caused the British and others to have the idea that on account of their prior supremacy in ships they should be permitted to dominate in the administration of shipping affairs in Washington. And a good argument could be made on that side of the question, and many gentlemen seemed to favor it. The Cunard ship transaction is an excellent illustration of that: When I first came to Washington I had a discussion with Sir Richard Crawford. Sir Richard was the minister of Great Britain in Washington while Spring-Rice was the ambassador. The commission to Sir Richard was a commission concerning ships and commerce. Early after my arrival here I told him that we wanted to build, with our \$50,000,000, which was our first appropriation from the Congress before the war, a number of steel cargo ships at various American yards. Between that conversation and the third or fourth week in April the Cunard Steamship Co., apparently as a private corporation but as it turned out with the funds of the British Empire, placed orders for 1,025,000 tons of steel ships of the type that I desired, with American shipbuilders, filling up everybody, the remaining stockage of the then existing yards.

One of the reasons why the wooden ship matter came up was because when we attempted to obtain contracts for steel ships we could not get any contracts from the American builders; they were afraid we would be less generous in our terms than the various foreigners, Norwegians, Swedes and the Cunard line, who were contracting for ships. In that first conversation with Sir Richards I said to him that we hoped all of the facilities of the American yards would be reserved for American ships, and that I was going to ask for legislation that would make this possible.

Now, see the absurdity of that position—that we Americans should be building wooden tubs for the supplying of our Allies, or nations who afterwards became our allies, and Great Britain, while they were using our steel shipyard facilities for constructing steel ships on their account. And those steel contracts of the Cunard line were not hurry-up contracts; they were single shift contracts, getting the minimum of efficiency out of the yards.

The negotiations that I conducted with Mr. Balfour regarding these ships occupied considerable of my time and a great deal of my thought. I was embarrassed there because there swept over Washington a propaganda that Denman was anti-British; that in attempting to get back these million tons into American contracts I was in some way hostile to Great Britain. I got it from the tea tables, and at dinner, and very often from my friends, and from various sources in the administration. Now, it was not true that I was anti-British. Our program contemplated stopping the building of high buildings and bridges and of American nonwar construction for the purpose of hurrying up these ships. We were going to turn ourselves commercially inside out to build the very ships, to conserve and bring in the steel for the very 1,025,000 tons that the Cunard line had contracted for; and to insist that when the ships came out as the result of that complete revolution and reversal of the American policy of steel construction, they should be under the American flag, is American, but it is not anti-British.

When the case was finally presented, Mr. Balfour, after some two or three weeks of negotiation with other members of the commission as well as with Mr. Balfour himself, he wrote a letter to me which offered to turn over the contracts to us, and that letter was the basis ultimately of the settlement between ourselves and Great Britain as to those contracts.

That was one of the activities that I was engaged in. I was also engaged in combating the continued statements that the Diesel engine was not successful and was in an experimental stage. One of the leading British ship engineers in Washington attempted to tell me that the thing was experimental, but he very quickly changed his tone when I told him I had been attorney for Fred. Olsen's fleet, and knew all about the East Asiatic Fleet, and the 35 odd large size vessels that then were sailing on the sea. Josephus Daniels himself said to me "Your English friends do not seem to think much of the Diesel." The same remark was made to me by Mr. Brent, my associate on the board. Everywhere was the urging, not the direct statement, that there was not confidence in the Diesel ships.

The CHAIRMAN. Mr. Denman, it is now 12.15 o'clock p. m., and the House is in session, and inasmuch as there may be a number of important matters considered and some votes taken, we will be unable to sit this afternoon, but we will hear you again in the morning at 9.45.

Mr. DENMAN. I will continue the account of the difficulties I had in the adjustments with our Allies, when I come on to-morrow morning.

(Thereupon, at 12 o'clock and 15 minutes p. m. the committee adjourned until to-morrow, Tuesday morning, December 14, 1920, at 9.45 o'clock.)

SELECT COMMITTEE ON UNITED STATES
SHIPPING BOARD OPERATIONS,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Tuesday, December 14, 1920.

The committee met in the caucus room, House Office Building, at 9.45 a. m. pursuant to adjournment on yesterday, Hon. Joseph Walsh (chairman) presiding.

Also present: Representatives Kelley, Hadley, Foster, Steele, and Connally, the other members of the committee.

The CHAIRMAN. The committee will come to order. The chairman has received a statement from Mr. Gillen, in response to questions propounded at one of the previous hearings, I think by Mr. Steele, which he has reduced to writing, and about which he has stated to the chairman he will be prepared to be examined later. If there is no objection this statement can be put into the record, and Mr. Gillen will be heard later when there is an opportunity for him to be examined

(The statement referred to is here printed in full in the record, as follows:)

NEW YORK, N. Y., *December 9, 1920.*

SELECT COMMITTEE ON UNITED STATES SHIPPING BOARD OPERATIONS,
House of Representatives, Washington, D. C.

Attention Hon. Joseph Walsh, chairman.

HONORABLE SIRS: At the close of my testimony before your committee, it was requested that constructive suggestions to correct the conditions and evils surrounding the Shipping Board and the Emergency Fleet Corporation be submitted. Permit me to say, as an opening word, that the testimony adduced on my examination by your honorable committee was arranged in an analytical manner, as one would analyze the affairs of any large corporation for a banking house—the corporate property, the handling of it, and the difficulties surrounding its functions are set forth therein. That testimony and the discussion of fact and remedies, which I will now present pursuant to your request, have not been made in a spirit otherwise than that of constructive criticism of the Jones bill; for I hold that piece of pioneer shipping legislation in high regard.

DISCUSSION AND REMEDIES.

The Emergency Fleet Corporation, with all its activities, should be completely eliminated from any connection with the Shipping Board. The Shipping Board has ultimately to do with matters of commerce and welfare of the nation, while the Emergency Fleet Corporation is fundamentally a liquidation affair involving Government finance and appropriation. Any reorganization at this time must keep clear this separation, not only between the Shipping Board and the Emergency Fleet Corporation but in the committee control of the House and Senate as well.

SEPARATE AND DISTINCT FUNCTIONS OF THE SHIPPING BOARD AND EMERGENCY FLEET CORPORATION.

The Shipping Board has charge of the operation of some 1,400 ships on the seas of the world. It is confronted with present problems arising out of freight, supplies wharfage, stevedoring, operating companies, trade routes, and ultimately, when the fleet has been liquidated, its duties will be confined to the Federal regulation of our privately owned merchant marine for the national welfare, as set forth in the Jones bill and future amendments.

The Emergency Fleet Corporation was created to build the above fleet. It built shipyard plants, let many great contracts, purchased large quantities of material, and created vast liabilities.

The function, activities, and liabilities of these two corporations are entirely different and distinct. There are great problems before each of those bodies. The commissioners of the Shipping Board are, and act to day as, the trustees and officers of the Emergency Fleet Corporation, trying in a dual capacity to manage and solve the gigantic problems of both institutions. The chairman of the Shipping Board is also the president of the Emergency Fleet Corporation. The Senate Commerce Committee and the Merchant Marine and Fisheries Committee, in the formation of the

Jones bill, have been working with the great fundamental laws of shipping, in a pioneer field, and thus have not had an opportunity to come in contact with and solve the great problems arising out of the liquidation of the Emergency Fleet Corporation.

There are no practical difficulties attendant upon the separation of these two bodies—each has today a separate organization as to accounting and managerial force, as distinct and separate, one from the other, as are their duties and functions.

SHIPPING BOARD.

The Shipping Board should have full control of—

(a) The management of the 1,400 Government-owned ships.

(b) The interpretation and enforcement of the laws and regulations laid down under the Jones bill and its necessary amendments—an overwhelming piece of managerial and regulatory work.

It should consist of seven members, selected for their known experience and qualifications to handle the large problems arising out of the management of this great property; to wit: The 176 ship operating corporations that directly manage the physical and commercial operation of the ships. The primary qualifications for the appointment of these men should be their general, known business ability and experience. Each should be selected for a special ability, so that when the Board is complete it will include—

A member experienced in large executive and corporate work, as chairman.

A member experienced in accounting and finance, of the banker or large business type.

A member experienced in shipping.

A member experienced in ship construction.

A member experienced in railroad transportation.

A member experienced in admiralty law.

A member experienced in railroad or commercial legal affairs.

The salary of the chairman should be \$18,000 a year, and of the other members of the board, \$15,000 a year.

Each of the members should have charge of one of the departments of the Shipping Board and should have as an assistant an analyst who can prepare and chart the records of the department that his superior controls, so that when the Board meets in session, each member will bring to the board, at all times, the actual facts surrounding his department. The salary of the analyst should be from \$7,500 to \$10,000 a year.

A skilled, executive managing operator should be selected for the fleet. There are at least 10 steamship companies in New York city that are compelled to pay their managing operators salaries around \$50,000 a year or more. A practical operating manager should be employed. The Shipping Board would then be able to take charge of the biggest piece of corporate work in America; to wit, managing approximately 1,400 ships worth \$1,500,000,000, a corporate management equal in size to that of the United States Steel Corporation.

The Shipping Board, from time to time, should prepare a list of the vessels that it has for sale and submit that list to the Emergency Fleet Corporation. This will enable it to protect trade routes while the liquidation of the fleet is going on. As the Shipping Board, from time to time, withdraws boats from trade routes, or withholds them from the liquidation corporation for sale purposes, in just so far will liquidation of the fleet be retarded and the Government's investment tied up. The Commerce Committee of the Senate and the Merchant Marine and Fisheries Committee of the House are directly concerned if a too rapid withdrawal occurs, for they are interested in the establishment of trade routes. The Finance and Appropriation Committees of the Senate and House, on the other hand, will be directly interested, by the failure on the part of the Shipping Board to wisely and promptly make deliveries of boats to the liquidating corporation. The time within and the prices at which these assets are disposed of should be ever under the watchful eye of the Finance and Appropriation Committees. Congress should compel the Shipping Board and the Emergency Fleet Corporation, by law, to make semiannual reports to it of their activities—one as of May 1, filed on June 1; and the other as of November 1, filed on December 1. Thus the responsibility for action can easily be placed by the American people either on the Shipping Board or the liquidating corporation.

EMERGENCY FLEET CORPORATION.

The Emergency Fleet Corporation should consist of seven members who are experienced business men. It should function as a liquidating corporation. It should be charged with—

(a) The sale of approximately 1,400 ships, which at present values are worth about a billion and a half dollars.

(b) The sale of surplus material—valued at about \$400,000,000.

(c) The sale of housing projects—about \$60,000,000.

(d) The sale of yards and equipment.

(e) The completion of ships still under construction and contract.

(f) The settlement of claims against the Fleet Corporation; the collection of claims in favor of the Fleet Corporation; suits for restitution and prosecution for violations.

(g) All the accounting of the Shipping Board and Emergency Corporation, except the accounting for the operation of the fleet from and after March 1, 1920—the date the present operating agency agreement was put into effect.

This will relieve the Shipping Board of the tangle of problems unrelated to ship operation that have clogged its efficiency, and permit it to function as a great managerial shipping institution.

The chairman of the liquidating corporation should receive a salary of \$18,000 a year, and the other trustees \$15,000 each. The board when completed should consist of—

A member of outstanding executive business ability, who should be chairman.

A member with sales knowledge gained in handling large units, for the sale of ships.

A member with sales knowledge of handling salvage materials—if possible secure the services of one of the salvage sales managers from one of the big railroads of the country.

A member with sales knowledge of real estate—a man who has had experience in selling homestead projects.

A member with knowledge of ship construction to assume charge of the completion of ships yet to be finished.

A member with known accounting and financial ability.

A member with commercial legal experience, gained in large affairs—to handle settlements.

Each member of this board also should have as an assistant an analyst, who can prepare and chart the records of the department which his superior controls.

A sales organization for the sale of ships should be created with an appraisal and financial bureau. Sufficient legal machinery now exists for carrying out the terms of ship sales.

A legal department should be organized for the collection of claims in favor of the Government; and a staff of 15 prosecuting attorneys should be created—men selected for their experience as public prosecutors, at a salary of \$7,500 a year—to prosecute the frauds in the several districts of the United States which have occurred in the operation of the Shipping Board and the Emergency Fleet Corporation contracts and property. They should be detailed and specialize as follows:

Two on supply companies.

Three on operating companies.

Two on ship repairs.

Two on shipyard cases.

Two on officers of ships.

One on stevedoring charges.

One on docks.

Two on brokerage and commissions.

A staff of five commercial trial lawyers should be employed for restitution cases. They should all be deputized by the Department of Justice under law, but should be appointed by, and be absolutely under the control of, the Emergency Fleet Corporation. The Department of Justice is so loaded with work created out of the war that it is impossible for effective results to be gained unless this liquidating corporation is given proper control to push its cases, by and with the consent of the Department of Justice.

Again, the Shipping Board, under law, should have full charge of the prosecution and settlement of its admiralty cases.

No other department of the Government possesses the liquidating problems—either as to the time or extent—as confront the Shipping Board and Emergency Fleet Corporation. It should be accomplished in four years if business men do the job, but if politics intervene and soft berths are found for men of either the Republican or the Democratic party, on these two boards, then a continuing loss to the taxpayer will ensue.

OFFICES FOR SHIPPING BOARD AND EMERGENCY FLEET CORPORATION.

Prior to the war the Navy Department was housed in the State, War, and Navy Building. A new building of 900,000 square feet of space was built during the war for the Navy Department. Their needs and activities in time of peace are not equal to those of the Shipping Board and Emergency Fleet Corporation. The needs of the two latter named institutions will require from 350,000 to 400,000 square feet of floor space. They should be housed within 60 days in the Navy Building. One section of the building should be set off for both, but they should be kept entirely separate and function as separate corporations. To-day the Shipping Board and Emergency Fleet Corporation have their executive offices on F Street in Washington, while the supply and sales, accounting department for ship operation and construction, and the pay-roll examiners' force are housed at Sixth and B Streets, a mile distant. This has always resulted in lack of control and confusion.

CONTROL OF FUNDS.

The Shipping Board should be given a base appropriation as a reserve fund for ship operation, if needed, when the law is changed, and if any deficit occurs. from time to time, it can be met by a new appropriation, so that the American people will know what it costs to operate its fleet.

The liquidating corporation should be required to submit to Congress:

- (a) Its budget of administration expense for the ensuing twelve months;
- (b) Its estimated cost for the completion of construction now in progress;
- (c) The estimated cost of the settlement of claims against the Government, for a period of twelve months.

It should receive an appropriation on this basis.

All funds received by the liquidating corporation should be paid into the General Treasury of the United States to the credit of miscellaneous receipts, so that Congress will have knowledge of the liquidations and thereby control the activities of the liquidating corporation.

FEDERAL REGULATION AND LICENSE BY THE SHIPPING BOARD OF COMPANIES AND PERSONS ENGAGED IN WAREHOUSING, DOCKS, STEVEDORING, SUPPLIES, SHIP REPAIRS, LIGHTERAGE, TOWING, AND BROKERAGE.

The national surplus created by the American manufacturers and labor, wherever located, and more especially that created by the wheat farmers of the Mississippi Valley and the cotton farmers of the South, vitally needs a clean, effective merchant marine, with American sales agents in foreign fields—and thus must that merchant marine be kept clean and effective. All the evils practically occur at the pierheads in our coast ports. The short experience of two years now points out that, as in the case of the early history of the railroads and the public utilities of this country, so there must come to shipping a stronger Federal regulation than is contained in the present law. There must come Federal regulation over the warehouses, docks, stevedore companies, supply houses, repair yards, lighterage, towing companies, and commission houses furnishing freight. The regulation must be a fair and just one. Fair valuation of asset values and services should afford fair returns to these subsidiary activities. Officers and directors of privately owned steamship companies and of Shipping Board operating companies are directly interested, in a large way, in the subsidiary shipping activities. The evils that have grown up through the destructive charges created by these subsidiary shipping activities will destroy, at its source, the maintenance of our merchant marine and the value of steamship securities. Therefore, they must be brought under the control of the Shipping Board by Federal enactment. The railroads, with 265,000 miles of transportation facilities, were cleansed with one stroke by the Clayton Act and the Interstate Commerce Act as amended. Similar legislation is immediately necessary for the protection and growth of our merchant marine. Thus, this project—national in scope and usefulness—is freed and emancipated at the pierheads, from local conditions, political and otherwise, which throttle the commerce and welfare of the Nation and exact secret tribute from the great producing interior of the Nation. For the first time, then, will we have a free and clean outlet from our shores into the seven seas, where no monopoly can exist, to face intense world competition, carrying the surplus of our products from factory, farm, and mine.

All the above subsidiary activities should be permitted to operate only on license granted by the Shipping Board. They should be compelled to keep standard or uniform books of account, such as the Interstate Commerce Commission requires of the rail-

roads open at all times to the inspection of the Shipping Board, and regulated not only as to domestic business, but also foreign business done within our borders. An expert firm of accountants should draft the different standard forms of accounting for adoption by the board. Failure to observe the rules of the Shipping Board should result in severe penalties or revocation of licenses upon due hearings being had.

The Treasury act should be amended so that the Shipping Board and the Department of Justice may have access to the Federal income tax statements—past and future—of corporations with which the Shipping Board has and does business. All business done with the Shipping Board by those engaged in subsidiary shipping activities, should be verified twice a year under oath of their president, treasurer, and general manager. These subsidiary activities have failed to operate in a wise manner, and the answer is not Government ownership or the abandonment of the effort to maintain a merchant marine, but Government regulation. The masters and all officers aboard Shipping Board boats who purchase supplies or create liabilities against the Government at home or abroad should be compelled to make oath at the time of receiving their salaries that they have not accepted rebates, bonuses, or bribes. The president, treasurer, and general manager of all the operating companies at the time of payment to them of the commissions earned for handling Shipping Board boats should be compelled to make oath that they have neither given nor received nor have knowledge of the payment, directly or indirectly, of rebates, bonuses, or bribes. Criminal statutes should be enacted striking at crimes committed against shipping within our borders.

EXCESS-PROFITS TAX.

The Jones bill provides, section 23: "That the owner of a vessel documented under the laws of the United States and operated in foreign trade shall, for each of the 10 taxable years while so operated, beginning with the first taxable year ending after the enactment of this act, be allowed as a deduction for the purpose of ascertaining his net income subject to the war-profits and excess-profits taxes imposed by Title III of the revenue act of 1918 an amount equivalent to the net earnings of such vessel during such taxable year, determined in accordance with rules and regulations to be made by the board: *Provided*, That such owner shall not be entitled to such deduction unless during such taxable year he invested, or set aside under rules and regulations to be made by the board in a trust fund for investment in the building in shipyards in the United States of new vessels of a type and kind approved by the board, an amount, to be determined by the Secretary of the Treasury and certified by him to the board, equivalent to the war-profits and excess-profits taxes that would have been payable by such owner on account of the net earnings of such vessels but for the deduction allowed under the provisions of this section: *Provided further*, That at least two-thirds of the cost of any vessel constructed under this paragraph shall be paid for out of the ordinary funds or capital of the person having such vessel constructed.

That during the period of 10 years from the enactment of this act any person a citizen of the United States who may sell a vessel documented under the laws of the United States and built prior to January 1, 1914, shall be exempt from all income taxes that would be payable upon any of the proceeds of such sale under Title I, Title II, and Title III of the revenue act of 1918, if the entire proceeds thereof shall be invested in the building of new ships in American shipyards, such ships to be documented under the laws of the United States and to be of a type approved by the board.

The Government is the biggest owner of shipping property in America, and the mandate of the people is to sell that property. Therefore, the law should provide a protection for the Government as well as one for the shipbuilding owners of this country. As the Jones bill now stands, all ship owners can keep their excess profits if they put the excess profit tax in new ships. The exemption feature of the law should be extended so that if a ship owner has purchased a Shipping Board boat and is indebted to the Government on that boat, the excess profits charged to the profits on that boat, shall be applied on the debt against the boat. As the law stands it works a manifest injustice on the Government.

CONVERSION OF ARMY PORT TERMINALS AND WAREHOUSE FACILITIES FROM ARMY PURPOSES TO SHIPPING PURPOSES.

When the Nation went to war it had a small Army and small facilities for handling the Army. It increased the Army and the Army facilities during the war. It built great terminal warehouses at the several ports of the United States, which were used to take care of the supplies to the Allies and to the 9,000,000 men which we expected eventually to put across the seas. Capital of the Nation was taken out of active

business and put into these properties to an extent of \$175,000,000—almost the cost of the Panama Canal. These huge port terminal facilities are no longer of use to the Nation for war purposes, and should be put back into active commercial life. They should be rented on a low basis to the several municipalities or States within which they are located, for shipping and commercial purposes, under regulations of the Shipping Board, thus building up commercial activities at our coast ports for foreign business.

CURTAILMENT OF SHIPPING ACTIVITIES OF THE ARMY.

When the United States built the Panama Canal it became necessary to build a railroad running parallel to the canal, which at present is being operated by the War Department. Shortly thereafter it became necessary to purchase a few boats to take care of the employees, troops, and supplies of the Government while building the canal, and to-day out of this small beginning we have a second merchant marine in operation and under the control of the War Department. An investigation should be made of the extent of the Army shipping activities, and all boats now operating and used in commercial business should be taken away from the Army and turned over to the Shipping Board. The Government has the power, in event of war, to commandeer all privately owned American ships. This small Army merchant marine, of some 25 or 30 ships, which they are now operating and increasing in size and commercial activities, is only an experiment. The operation of these boats by the Army, independent of and in competition with the Shipping Board boats, is already a menace to the shipping interests of the southern ports and the southern trade routes of the United States—the protection of which is vital to the future shipping prosperity of the South.

ADJUST CONTRACTS OF SALE OF SHIPS ALREADY MADE.

The Shipping Board has thus far sold about 185 ships, some of them of the new, large tonnage, but many of them are of the small tonnage. They are out on different terms of payment. The prices for the new tonnage range from \$225 per dead-weight ton down to \$150. A record of all the sales, with the names of the buyers, and first payment, together with the original agreement and the supplemental agreement of sale, is, as of November 1, 1920, submitted herewith. These buyers were the pioneer purchasers of Shipping Board boats, and nearly every one of those who purchased these boats is destined to be financially destroyed at an early date, and the American investment market, into which the Shipping Board must go to dispose of the balance of its 1,400 ships, has already been shot to pieces. Shipping securities are well known in England; they are owned by trust companies, farmers, widows, and general investors. Shipping securities are well-nigh unknown in America—except with a present bad character; and if the Government intends to sell its 1,400 boats it will have to courageously adjust these contracts with the pioneer purchasers. Already the Government has taken back some 61 or more of those which it sold, either by direct receipt or by way of receivership—a partial list is herewith submitted—and many of the remaining pioneer purchasers are on the verge of bankruptcy.

There is no investment market in America for shipping securities to-day because of the prices at which these ships were sold. The contracts should be taken back, whatever profit has been made by the owners should be taken by the Government, a commission for the operation of the ships should be allowed the owner for the period of operation, and the contract rewritten at the new prices when established.

War amortization belongs to the Nation. While with the Shipping Board the above was ever my position, and now is, that the pioneer purchasers of Shipping Board boats should be given every protection by the Shipping Board, so as to keep clean the ship securities market. The temporary remedy suggested to the board at that time was to extend time of payment of mortgage; extend interest; take back ships where the company had over-purchased—for I ever looked forward to the day when Congress and the Shipping Board would do what is recommended above. The toll of receiverships that has occurred since last August, set forth in the submitted list, indicates the wisdom of that policy, and points out the immediate relief now needed for the balance of the pioneer purchasers. While not a member of the Shipping Board, permit me to point out that the Board, in so far as it was empowered, endeavored to work in harmony with that suggestion. Then, too, the present policy of the Shipping Board in holding pioneer shipping companies intact by receivership, until Congress acts, is indeed wise.

ESTABLISHMENT OF SALES PRICE OF FLEET SHOULD BE IN EMERGENCY FLEET CORPORATION RATHER THAN IN CONGRESS.

The Jones bill provides that the Shipping Board boats shall be sold at reproduction prices less depreciation. This method will permit of the sale of the tankers, but of all the other 1,300 boats belonging to the Government there will be no material sale, unless the liquidating corporation, if created, has the power to place those cargo boats on the market at from \$100 to \$125 a dead-weight ton except tankers and cargo passenger boats. For, the longer they are in the hands of inefficient operators, the less valuable will become the property. It is my judgment that firmly and courageously, the power to establish the price should be placed in the liquidating corporation. It is a commercial and not a legislative proposition, and should be determined by business men selected to handle it. Congress should indicate the policy it desires in this regard, but should not destroy the power of decision in the liquidating corporation to fix the sales price. Arbitrary provisions of this sort made by Congress in the past have always defeated the wise provisions of Congress and complete paralysis as to desired relief has ensued.

SALE OF EXCESS TANKERS.

The Shipping Board on November 1, 1920, had 84 tankers in operation. 51 were in the direct Shipping Board fuel oil service; 8 in the joint Shipping Board and private fuel oil service; 12 in the Government fuel oil service; 12 in private account, and 1 unassigned. It had, in addition, 14 tankers under construction and under contract—a total of 98. At least 20 of these 84 tankers now in operation should be sold and the sale should be made of the 14 tankers under construction. There was a terrific national and international shortage of tankers from January 1 to November 1, 1920, and there still is a shortage of tankers, but there is being built, I am informed, about 900,000 tons of tankers in American yards to-day for private delivery, at prices ranging from \$180 to \$195 a dead-weight ton. Shortly there will be an excess of tankers and when that occurs, it is questionable whether the Shipping Board will be able to sell its tankers at reproductive prices. It will not be in as bad a position as it is with its cargo boats, but it will be in a comparatively little better position as to sales. Before any more private companies make further contracts for tankers in the private yards of America, the Government should sell the tankers and tanker contracts which it does not need for its own service.

SHIP OPERATING COMPANIES SHOULD BE REDUCED FROM 176 TO ABOUT 50 COMPANIES.

The Shipping Board boats are managed by about 176 operating companies located at the several ports of the United States. A great number are inefficient managers and ships should be taken away from them. In some cases there are as high as five operating companies handling one berth or trade, each of the five competing for the same business. Again, in many of the ports, the operating companies could be reduced 50 per cent by mergers—concentration is vitally needed and must be firmly made. It will materially cut the overhead expense in the field and at Washington and at the same time stop Shipping Board boats from competing with each other at a material loss to the Government.

EXECUTIVE PERSONNEL.

No form of organization or legislation can accomplish the great beneficial results, in maintaining our merchant marine, which the American people fondly hope for, without there being the proper kind and character of men to manage the Shipping Board and Emergency Fleet Corporation and translate the Jones bill into deeds of success.

The salaries which are offered in the Government service can not alone be deemed sufficient to attract men of high ability and character to that service. Yet there are outstanding American citizens, strong and successful in private enterprise—and the war proved it—who have as high and as lofty a purpose for the national welfare as the most humble citizen of the land, and who are willing to devote their time and services unselfishly to the Government.

It is unfortunate that unnecessary and unwarranted supercriticism should have driven from public service that class of men. There are many men in the noonday of their life, who have accumulated competences and much valuable commercial experience, who are willing to serve their Government. But we must grant to them in the future at least as fair and honorable motives as those who criticise. If men do

wrong in public service they should be driven from the society of decent men. Business men can not be obtained to fill important posts of large responsibility if the public permits political footballs to be made of their efforts and reputations. The Government now needs strong men to handle the Shipping Board and Emergency Fleet Corporation. It is no politician's job.

CONCLUSION.

There now stands forth, sun clear, six great outstanding facts—

First. That the responsibilities and duties of the Shipping Board are vast and comprehensive.

Second. That the responsibilities and duties of the liquidating corporation are equally as great, though different and distinct in nature and functions.

Third. That the Shipping Board should be freed so that it can function as a managerial ship operating and regulatory institution.

Fourth. That the same distinction of separate, supervisory legislation should be recognized in the control committees of the House and Senate.

Fifth. That Federal regulation must come to subsidiary shipping activities.

Sixth. That the price of the Shipping Board boats sold and to be sold must be readjusted.

With the above facts in mind, I am of the firm opinion that an American merchant marine can be maintained. For midst all the trials and tribulations that now surround our Government in shipping as a national industry, there comes to my mind the record of the pioneer spirit of our forefathers—a record of vision, hope, perseverance, and courage, which in the past has conquered and overcome every obstacle in the path of our national progress. Behind our merchant marine still stands that pioneer spirit of our people, unbroken and undismayed, relying and knowing that the brains of American industry can and will win for them in competition with the world. Then, too, I have an abiding faith in the common sense and determination of the American people, that when aroused, they will demand of our President and Congress, that our merchant marine shall be placed in the control of strong hands, made and kept clean; and that it shall be unshackled from the evils which now threaten to choke its very existence. Our people have made sacrifices in money and pride to establish a clean and effective merchant marine. They will make more sacrifices, but they will demand results.

Respectfully submitted.

MARTIN J. GILLEN.

Name of vessel.	Kind.	Dead-weight tons.
RECEIVERSHIP.		
<i>Atlantic Adriatic Steamship Co. (7 vessels).</i>		
Anlabusia.....	Steel.....	7,475
Arcadia.....	do.....	6,915
Ascutney.....	do.....	6,450
Arnlewood.....	do.....	7,323
Galesburg.....	do.....	7,323
Pawnee.....	do.....	7,200
Pequot.....	do.....	8,900
<i>French-American Line (Inc.) (17 vessels).</i>		
Casco.....	Steel.....	7,900
Wachusett.....	do.....	6,160
Wabash.....	do.....	6,775
Shoeters Island.....	do.....	7,249
Bremerton.....	do.....	7,379
Wisconsin Bridge.....	Steel (oil).....	5,100
Yucca.....	Steel.....	4,630
Democracy.....	do.....	7,323
Ice King.....	do.....	6,103
Mariners Harbor.....	do.....	3,535
Rajah.....	do.....	3,250
Tunika.....	do.....	7,653
Yukon.....	do.....	7,523
Faith.....	.....	.....
Bark Gratia.....	Steel (sail).....	.....
Bark Phillips.....	Wood (oil).....	.....
Schooner Spenrift.....	.....	.....

Name of vessel.	Kind.	Dead-weight tons.
<i>Green Star Steamship Corporation (5 vessels).</i>		
(Taken back new at \$165 per dead-weight ton).		
Apus.....	Seelt.....	9,500
Aquarius.....	do.....	9,500
Argus.....	do.....	9,500
Arcturus.....	do.....	9,500
Antinous.....	do.....	9,500
<i>International Maritime Corporation (5 vessels).</i>		
Lake Fatonia.....	Steel (oil).....	4,050
Lake Festos.....	do.....	4,050
Lake Fighting.....	do.....	4,050
Lake Galien.....	.....	.....
Eastern Maid.....	.....	4,948
<i>Italian Star Steamship Line (1 vessel).</i>		
Liberty Land.....	Steel.....	7,825
<i>Standard Steamship Co. (4 vessels).</i>		
Eastern Star.....	Steel.....	6,699
Bannock.....	do.....	7,388
Western Ally.....	do.....	8,514
West Mead.....	do.....	8,541
<i>Stiles Steamship Co. (8 vessels).</i>		
Balosaro.....	Wood.....	3,425
Clio.....	do.....	3,425
Fort Logan.....	do.....	3,425
Hyannia.....	do.....	3,425
Morganza.....	Composition and concrete...	3,425
Moosabee.....	Wood.....	3,425
Oyake.....	Composition and concrete...	3,425
Quinneseco.....	do.....	3,425
<i>American Merchant Mariners (2 vessels).</i>		
Biran.....	Steel.....	5,025
Hatteras.....	do.....	7,467
<i>Victor S. Fox & Co. (12 vessels).</i>		
Chillicothe.....	Steel (sail).....	3,500
Monongahela.....	do.....	4,150
Moshulu.....	do.....	4,950
Muscoota.....	do.....	3,750
Arapahoe.....	do.....	3,000
Tonawanda.....	do.....	2,700
Castlewood.....	Steel (coal).....	3,141
Coosa.....	do.....	2,625
Insonomia.....	do.....	6,020
Armenia.....	do.....	6,982
Jeannette Skinner.....	Steel (oil).....	8,660
Mount Shasta.....	do.....	7,242
Yellowstone (returned to board, paid to board by Fox & Co.).....	do.....	9,410

STATEMENT SHOWING NUMBER OF VESSELS SOLD UNDER VARIOUS TERMS OF PAYMENT.

UNITED STATES SHIPPING BOARD EMERGENCY FLEET CORPORATION.

GENERAL COMPTROLLER'S DEPARTMENT.

December 2, 1920.

From: J. H. White, chief accountant Ship Sales division.

To: General comptroller.

Subject: Statement showing number of vessels sold under various terms of payment.

1. Inclosed herewith is a statement showing the terms of payment and the vessels sold under each classification.

2. This statement includes all sales recorded in the accounts of the Ship Sales division with the exception of vessels fully paid for and requisitioned vessels reconveyed to former owners.

J. H. WHITE,
Chief Accountant Ship Sales Division.

Summary of statement of vessels sold to Dec. 2, 1920, in which the Shipping Board retains an interest.

	Num-ber of ves-sels.	First pay-ment.	Installments.			Num-ber of ves-sels.	First pay-ment.	Installments.	
			Per cent.	Period cover-ed.				Per cent.	Period cover-ed.
Original agree-ment still in effect.....	22	.....	100	3½ years.	Original agree-ment still in effect	1	50	50	6 months.
	5	.....	100	10 years.		1	50	50	5 years.
	5	2	100	12 years.		24	(1)	.....
	23	2½	97½	Charter pur-chase.	Total.....	198	.....	.....
	1	8	92	5 years.	S u p p l e m e n t a l a g r e e m e n t	1	5½	94½	3 years.
	5	10	80	3 years.		13	10	90	6 years.
	1	10	90	3½ years.		1	10	90	7½ years.
	1	10	90	5 years.		6	10	90	1 per cent per month.
	1	10	90	10 years.		3	10	90	12 years.
	30	10	90	12 years.		2	25	50	5 years.
	1	15	85	5½ years.		20	25	75	7½ years.
	1	20	80	3 years.		6	25	62½	7½ years.
	2	25	75	1½ years.		3	25	75	8 years.
	12	25	75	2 years.		1	25	50	8 years.
	25	25	75	3 years.		1	25	62½	8 years.
	1	25	75	4 years.		1	32	68	5 years.
	28	25	75	5 years.		1	65	35	9 months.
	4	25	75	7½ years.					
	1	30	70	3 years.					
	1	30	70	5 years.					
	1	31	69	5 years.					
	1	40	60	4 years.	Total.....	59	.....	.....

¹ Brooks Steamship Co.
² Represents percentage unpaid when supplemental agreement was signed.

UNITED STATES SHIPPING BOARD EMERGENCY FLEET CORPORATION, GENERAL COMPTROLLER'S DEPARTMENT, SHIP SALES DIVISION.

Statement of vessels sold to Dec. 2, 1920, in which the Shipping Board retains an interest, showing original terms of sale and supplemental terms.

Purchaser.	Vessel.	Ton- nage.	Delivered.	Price.	Original agreement.			Supplemental agreement.				
					First pay- ment.	Installments.		First pay- ment.	Installments.			
						Per cent.	Num- ber.		Period.	Per cent.	Num- ber.	Period.
Manuel Allande.....	Hamlin.....	5,075	Mar. 20, 1920	\$200.00	(1)	100	7	3½ years.....				
American Fuel Oil & Transportation Co.	Carrabelle.....	7,825	Oct. 8, 1920	185.00	(1)	100	20	10 years.....				
Do.....	Cassimir.....	7,825	Sept. 21, 1920	185.00	(1)	100	20	do.....				
Do.....	Castana.....	7,825	Oct. 13, 1920	185.00	(1)	100	20	do.....				
Do.....	Catahoula.....	7,825	Sept. 28, 1920	185.00	(1)	100	20	do.....				
Do.....	Manatawny.....	7,825	Oct. 14, 1920	185.00	(1)	100	20	do.....				
American Merchant Marine.....	Biran.....	5,025	May 25, 1920	173.38	2½	97½		Charter purchase.....				
Do.....	Hatteras.....	7,467	Apr. 26, 1920	172.58	2½	97½		do.....				
American Ships & Commerce Corpora- tion.	De Kalb.....	8,200	July 13, 1920	800,000.00	10	90	10	10 years.....				
Do.....	Kermit.....	11,220	Mar. 6, 1920	159.00	25	75	10	5 years.....	25	75	8	8 years.
Do.....	Montpelier.....	9,675	June 17, 1920	159.00	25	75	10	do.....	25	75	8	Do.
Do.....	Monticello.....	11,365	May 8, 1920	149.00	25	75	10	do.....	25	75	8	Do.
American Star Line.....	American Star.....	7,550	Dec. 27, 1919	215.00	25	75	10	do.....	25	75	15	7½ years.
Do.....	Northern Star.....	7,550	Dec. 3, 1919	215.00	25	75	10	do.....	25	75	15	Do.
Jose Luis de Ansoleaga.....	Kenwood Bridge.....	5,075	Apr. 9, 1920	200.00	10	90	7	3½ years.....				
Atlantic Fruit Co.....	Callabahas.....	3,695	Jan. 3, 1920	181.66½	25	75	10	5 years.....				
Do.....	Glendola.....	3,700	Apr. 5, 1920	178.65	25	75	10	do.....				
Do.....	Glendoyle.....	3,700	July 31, 1920	174.60	25	75	10	do.....				
Do.....	Glyndon.....	3,700	Feb. 9, 1920	190.00	25	75	10	do.....				
Atlantic, Gulf & Pacific Steamship Co	Cape Henry.....	7,371	Oct. 6, 1920	161.58½	(1)	100	24	12 years.....				
Do.....	Cape Romaine.....	7,371	Aug. 18, 1920	163.77	10	90	24	do.....				
Do.....	Liberator.....	11,713	Sept. 23, 1920	172.36	(1)	100	24	12 years.....				
Do.....	West Apaum.....	8,516	Sept. 16, 1920	163.04	10	90	24	do.....				
Atlantic Transport Co.....	Champion.....	11,925	Sept. 30, 1919	(2)	25	75	10	5 years.....	25	50	10	5 years.
Do.....	Defender.....	11,925	.....do.....	(2)	25	75	10	do.....	25	50	10	Do.
J. F. Auditors.....	Lydia.....	5,936	Sept. 26, 1919	165.00	25	75	10	do.....	25	62½	15	7½ years.
Do.....	Redondo.....	5,900	July 26, 1919	210.00	25	75	10	do.....	25	62½	15	Do.
Do.....	Sacramento.....	7,462	Sept. 17, 1919	215.00	25	75	10	do.....	25	62½	15	Do.
Baltimore & Carolina Steamship Co...	Lake Clear.....	2,875	June 1, 1920	166.15	2½	97½		Charter purchase in arrears.....				
Baltimore, Trans-Atlantic Steam- ship Corporation.	Lake Ennis.....	3,525	Sept. 13, 1920	148.40	10	90	24	12 years.....				

1 None.

2 In hands of receiver.

3 Cost.

Statement of vessels sold to Dec. 2, 1920, in which the Shipping Board retains an interest, showing original terms of sale and supplemental terms—Con.

Purchaser.	Vessel.	Ton- nage.	Delivered.	Price.	Original agreement.			Supplemental agreement.		
					First pay- ment.	Installments.		First pay- ment.	Installments.	
						Per cent.	Num- ber.		Per cent.	Num- ber.
Barber Asphalt Paving Co.	Bermudez	4,000	Feb. 17, 1920	212,000.00	25	75	3	14 years		
Do.	Guarale	4,000	do.	140,000.00	25	75	3	do.		
Bisco Towboat Co.	Barranca	439	Mar. 1, 1920	215,000.00	25	75	4	2 years		
Buckannon Steamship Corporation.	Buckannon	3,500	Nov. 4, 1920	90.00	25	75	4	do.		
Brooks Steamship Corporation.	(*)						11	54 years		
Bull Inland Steamship Co.	Lake Greenwood	3,293	June 2, 1920	166.50	24	97½		Charter purchase		
Do.	Lake Monroe	3,293	June 9, 1920	166.50	24	97½		do.		
Cabill Towing Line (Inc.)	Artisan	358	July 30, 1920	83,000.00	25	75	6	3 years		
Do.	Woodman	358	do.	83,000.00	25	75	6	do.		
Campello Steamship Corporation	Campello	3,500	Nov. 28, 1919	90.00	25	75	4	2 years		
Do.	Cortopaxi	4,140	Dec. 23, 1919	375,000.00	25	75	3	3 years		
Co.	Bartolome	418	Apr. 20, 1920	225,000.00	25	75	4	2 years		
A. D. Cummins & Co.	Cascade	7,562	Sept. 11, 1920	172,37½	10	90	24	12 years		
Do.	Westmount	8,782	July 21, 1920	163.04	10	90	24	do.		
M. J. Dady Engineering & Construction Co.	Craftman	176	Aug. 2, 1920	83,000.00	25	75	6	3 years		
W. D. Dittmar	Printer	176	Sept. 21, 1920	80,000.00	25	75	6	do.		
J. E. Deckendorff & Co.	New Britain	7,814	Sept. 12, 1919	225.00	40	60	8	1 years		
Elder Steel Steamship Co. (Inc.)	Nepouset	9,725	May 13, 1920	196.13	24	97½		Charter purchase	10	90
Farragut Steamship Co.	Lake Farragut	4,155	May 11, 1920	186.66	24	97½		do.		
Fort Steamship Co. (Inc.)	Fort Seward	3,500	Aug. 4, 1920	60.00	8	92	10	5 years		
Victor S. Fox Co. (Inc.)	Arapahoe	3,000		55.00	25	75	6	3 years		
Georges Creek Steamship Co.	Chillicothe	3,500	Mar. 30, 1920	55.00	25	75	6	do.		
Do.	Monongahela	4,150	June 23, 1920	55.00	25	75	6	do.		
Do.	Moshula	4,950	May 13, 1920	55.00	25	75	6	do.		
Do.	Muscoota	3,750	July 10, 1920	55.00	25	75	6	do.		
Do.	Tonawanda	2,947		55.00	25	75	6	do.		
Do.	Castlewood	5,141	June 3, 1920	186.17	24	97½		Charter purchase	10	90
Do.	Coosa	2,626	May 5, 1920	100.00	24	97½		do.	10	90
Do.	Isnomia	6,020	Apr. 28, 1920	690,000.00	24	97½		do.	10	90
Do.	Armenia	6,962	do.	100.00	24	97½		do.	10	90
Victor S. Fox Co. (Inc.)	Janette Skinner	8,860	Apr. 13, 1920	171.78	24	97½		do.	10	90
Do.	Mt. Shasta	7,342	May 30, 1920	170.24	24	97½		do.	10	90
Do.	Bavocel	418	Apr. 21, 1920	225,000.00	25	75	4	2 years		
Do.	Hosford	418	Feb. 21, 1920	225,000.00	25	75	4	do.		

12 years 8. F.

French American Line ¹	Bremerton.....	7, 379	June 12, 1920	163.77	10	90	24	12 years				
Do.....	Casco.....	7, 900	Feb. 20, 1920	125.00	25	75	10	5 years				
Do.....	Democracy.....	7, 323	July 5, 1920	167.90	24	97½		Charter purchase				
Do.....	Ice King.....	6, 103	Apr. 3, 1920	188.82	24	97½		do.				
Do.....	Mariners Harbor	3, 535	May 21, 1920	165.15	24	97½		do.				
Do.....	Shooter's Island	7, 249	May 31, 1920	175.00	10	90	24	12 years				
Do.....	Tunica.....	7, 653	Mar. 30, 1920	135.00	24	97½		Charter purchase				
Do.....	Wabash.....	6, 775	Dec. 6, 1919	129.15	25	75	10	5 years				
Do.....	Wachusett.....	6, 160	Jan. 17, 1920	119.32	25	75	10	do.				
Do.....	Wisconsin Bridge	5, 100	June 21, 1919	200.00	20	80		Charter purchase	32	68	9	5 years.
Do.....	Yucca.....	4, 630	Apr. 17, 1920	115.00	10	90	24	12 years				
General Steamship Corporation.....	Yukon.....	7, 523	Apr. 21, 1920	186.25	24	97½		Charter purchase				
Georges Creek Steamship Co.....	Meriden.....	3, 700	May 28, 1920	194.00	25	75	10	5 years (\$170)	25	75	15	7½ years.
Do.....	Hoxie.....	7, 540	June 2, 1920	173.25	10	90	24	12 years				
Do.....	Independence.....	11, 868	May 15, 1920	194.90	24	97½		Charter purchase				
Do.....	Scottsburg.....	12, 249	Sept. 11, 1920	185.00	10	90	24	12 years				
Godwin-Gallagher S. & G. Corpora- tion.....	Cockatoo.....	176	Sept. 25, 1920	79,000.00	25	75	6	3 years				
Do.....	Condor.....	176	Oct. 1, 1920	79,000.00	25	75	6	do.				
E. H. Greene & Co.....	Oconee.....	4, 116	Apr. 28, 1920	106.00	25	75	10	5 years	25	75	15	Do.
Green Star Steamship Corporation.....	Canibas.....	9, 970	Jan. 1, 1920	(²)	25	75	10	do.	25	75	15	7½ years S. F.
Green Star Line (Inc.).....	Maine.....	9, 530	Jan. 1, 1920	(²)	25	75	10	5 years	25	75	15	7½ years S. F.
Do.....	Sagadahoc.....	9, 970	Jan. 1, 1920	(²)	25	75	10	do.	25	75	15	Do.
Do.....	Woonsocket.....	9, 530	Jan. 1, 1920	(²)	25	75	10	do.	25	75	15	Do.
Do.....	West Cavanal.....	8, 562	Nov. 25, 1919	220.00	25	75	10	5 years ¹				
Do.....	Lancaster.....	11, 571	Nov. 25, 1919	225.00	25	75	10	do.				
Do.....	West Cawthon.....	8, 553	Nov. 25, 1919	220.00	25	75	10	do.				
Do.....	West Irmo.....	8, 759	Nov. 25, 1919	220.00	25	75	10	do.				
Do.....	West Islay.....	8, 737	Nov. 25, 1919	220.00	25	75	10	do.				
Gulf Export & Transportation Co.....	Lake Flagstaff	4, 145	May 17, 1920	170.00	10	90	24	12 years				
Gulf Navigation Co.....	Lake Fisher.....	4, 050	May 20, 1920	200.00	25	75	10	5 years				
H. Karluf Hansen.....	Fire Island.....	4, 350	May 20, 1920	200.00	65	35	1	3 months	65	35	1	9 months.
Fernandez Hermavos.....	Yazoo.....	2, 200	May 28, 1930	113.64	25	75	8	4 years				
Thos. J. Howard.....	Toller.....	176	July 30, 1920	72,500.00	25	75	6	3 years				
James Hughes, Jr.....	Geo. J. Hughes.....	177	June 18, 1920	80,000.00	10	90	12	do.				
Do.....	James Hughes.....	176	June 1, 1920	80,000.00	10	90	12	do.				
Robert P. Hyams Coal Co.....	Iberia.....	2, 500	Oct. 12, 1919	125,000.00	25	75	4	Charter purchase				No. S. F. Controlled.
International Bureau of Supplies.....	Mercury.....	10, 350	Aug. 16, 1920	775,000.00	10	90	6	3 years ¹				3 years ac- counts.
Do.....	New Rochelle.....	9, 510	May 1, 1920	900,000.00	24	97½		Charter purchase	54	94½	21	
International Maritime Corporation ²	Lake Festus.....	4, 050	Mar. 13, 1920	200.00	24	97½		Charter purchase ²				
Do.....	Lake Fighting.....	4, 050	Mar. 15, 1920	200.00	24	97½		do.				
Do.....	Lake Flatonia.....	4, 050	May 15, 1920	200.00	24	97½		do.				
Italian Star Line.....	Lake Land.....	7, 825	Apr. 28, 1920	202.47	24	97½		Charter purchase	10	90	24	12 years S. F.
Fred F. Jones Dredging Co.....	Helmsman.....	177	May 15, 1920	80,000.00	25	75	6	3 years				
Lloyd Royal Beldge.....	Aurora.....	3, 900	July 28, 1920	200.00	(¹)	100	7	3½ years				
Do.....	Fishers Island.....	4, 350	May 5, 1920	200.00	(¹)	100	7	do.				
Do.....	Knight Island.....	4, 350	Apr. 21, 1920	200.00	(¹)	100	7	do.				
Do.....	Lake Champlain.....	3, 115	Apr. 29, 1920	200.00	(¹)	100	7	do.				
Do.....	Lake Duane.....	2, 875	Mar. 29, 1920	200.00	(¹)	100	7	do.				
Do.....	Lake Felicity.....	2, 875	Apr. 1, 1920	200.00	(¹)	100	7	do.				

¹ None.

² In hands of receiver.

³ Cost.

⁴ Buckhannon.

⁵ 54 vessels.

⁶ Sold under court order.

⁷ 1 per cent per month.

⁸ To be changed

⁹ Applied for new terms.

SHIPPING BOARD OPERATIONS.

Purchaser.	Vessel.	Ton-nage.	Delivered.	Price.	Original agreement.			Supplemental agreement.		
					First pay-ment.	Installments.		First pay-ment.	Installments.	
						Per cent.	Num-ber.		Per cent.	Num-ber.
Lloyd Royal Beldge	Lake Forest	2,960	Mar. 26, 1920	\$200, 00	(1)	100	7			
Do	Lake Huron	3,115	Mar. 16, 1920	200. 00	(1)	100	7			
Do	Lake Michigan	2,980	Mar. 24, 1920	200. 00	(1)	100	7			
Do	Lakeport	2,960	Apr. 1, 1920	200. 00	(1)	100	7			
Do	Lakeside	3,115	Mar. 16, 1920	200. 00	(1)	100	7			
Do	Lakewood	2,980	Apr. 8, 1920	200. 00	(1)	100	7			
Do	Lake Worth	3,115	Apr. 1, 1920	200. 00	(1)	100	7			
Do	Long Island	4,350	May 8, 1920	200. 00	(1)	100	7			
Do	Lynchburg	3,909	May 25, 1920	200. 00	(1)	100	7			
Do	Nanquitt	5,100	June 1, 1920	200. 00	(1)	100	7			
Do	Nanshon	5,100	June 29, 1920	200. 00	(1)	100	7			
Do	Piqua	3,909	May 21, 1920	200. 00	(1)	100	7			
Do	Shelter Islands	4,350	Aug. 3, 1920	200. 00	(1)	100	7			
Do	Staten Island	4,350	May 7, 1920	200. 00	(1)	100	7			
Do	A. F. Luckenbach.	14,000	June 26, 1919	(2)	30	70	10			
Do	Harry Luckenbach.	12,130	May 24, 1920	305. 26	25	75	10			
Do	Lewis Luckenbach.	14,000	May 15, 1919	(2)	30	70	6			
Madrigal & Co.	Nipsic	2,500	Mar. 16, 1920	95. 00	25	75	6			
Maryland Transportation Co.	Porter	176	Aug. 12, 1920	80,000. 00	25	75	6			
Moore & McCormack	Delco	5,100	Oct. 8, 9191	210. 00	25	75	10			
Do	Honolulu	8,378	Jan. 26, 1920	975,000. 00	25	75	10			
Do	Lake Charles	2,875	Aug. 21, 1920	148. 40	10	90	24			
Do	Lake Ogden	2,875	Sept. 8, 1920	147. 73½	10	90	24			
Do	Commercial Pride.	8,112	May 25, 1920	1,206,000. 00	25	75	10			
Do	Osage	7,220	Feb. 14, 1920	125. 00	25	75	10			
Moran Towing & Transportation Co.	Retriever	176	July 1, 1920	80,000. 00	10	90	9			
Do	Salem	176	Sept. 21, 1920	80,000. 00	25	75	6			
Do	Terrier	176	July 1, 1920	80,000. 00	10	90	9			
Munsen S. S. Lines	Munisla	3,700	Mar. 29, 1920	185. 00	25	75	10			
National Oil Co.	Baddacock	426	May 14, 1920	205,000. 00	25	75	4			
Do	Barwick	418	Jan. 16, 1920	240,000. 00	25	75	4			
Do	Bayport	426	July 17, 1920	205,000. 00	25	75	4			
North Atlantic & Western S. S. Corporation.	Brush	7,825	Oct. 30, 1920	185. 00	10	90	24			

SHIPPING BOARD OPERATIONS.

Statement of vessels sold to Dec. 2, 1920, in which the Shipping Board retains an interest, showing original terms of sale and supplemental terms—Con.

Purchaser.	Vessel.	Ton- nage.	Delivered.	Price.	Original agreement.			Supplemental agreement.			
					First pay- ment.	Installments.		First pay- ment.	Installments.		
						Per cent.	Num- ber.		Per cent.	Num- ber.	Period.
Buderman & Young.....	Messenger.....	173	May 27, 1920	\$75,000.00	25	75	6	3 years.....	.....	.....	.....
Do.....	Propeller.....	176	May 30, 1920	75,000.00	25	75	6	.....do.....	.....	.....	.....
Swayne & Hoyt (Inc.).....	Iris.....	3,500	Aug. 3, 1920	96,100.00	30	70	3	.....do.....	.....	.....	.....
Texas Co.....	Aryan.....	9,500	Jan. 1, 1920	(¹)	25	75	8	7½ years.....	.....	.....	.....
Do.....	Dirigo.....	9,500	.....do.....	(¹)	25	75	8	.....do.....	.....	.....	.....
Do.....	Lightburne.....	9,500	.....do.....	(¹)	25	75	8	.....do.....	.....	.....	.....
Do.....	Shenandoah.....	9,500	.....do.....	(¹)	25	75	8	.....do.....	.....	.....	.....
Tracy Towing Line (Inc.).....	Helen L. Tracy.....	176	Aug. 14, 1920	80,000.00	25	75	6	3 years.....	.....	.....	.....
Do.....	Thomas Tracy.....	176	Aug. 13, 1920	80,000.00	25	75	6	.....do.....	.....	.....	.....
Tropical Fruit Co.....	Yuma.....	2,500	Apr. 14, 1920	110.00	25	75	10	5 years.....	.....	.....	.....
Virginia S. B. Corporation.....	Betsy Bell.....	9,406	Jan. 6, 1920	225.00	25	75	10	.....do.....	.....	.....	.....
Do.....	E. A. Morse.....	9,400	Jan. 7, 1920	225.00	25	75	10	.....do.....	.....	.....	.....
Do.....	Gunston Hall.....	9,400	Aug. 21, 1919	225.00	25	75	10	.....do.....	.....	.....	.....
Do.....	H. F. Morse.....	9,400	Oct. 23, 1919	225.00	25	75	10	.....do.....	.....	.....	.....
Do.....	Vavada.....	9,400	Sept. 16, 1919	225.00	25	75	10	.....do.....	.....	.....	.....
Williams Steamship Co.....	Cajacet.....	10,375	June 29, 1920	185.00	10	90	24	12 years.....	.....	.....	.....
Do.....	Conshohocken.....	10,375	May 28, 1920	185.00	10	90	24	.....do.....	25	.....	.....
Do.....	Richmond Boro.....	7,787	Sept. 2, 1919	215.00	25	75	10	5 years.....	25	.....	.....
Do.....	Willpolo.....	7,814	Sept. 25, 1919	215.00	25	75	10	.....do.....	25	.....	.....
Wood Towing Corporation.....	Fort Howard.....	176	Sept. 15, 1920	85,000.00	25	75	6	3 years.....	.....	.....	.....
Do.....	Vanguard.....	176	May 28, 1920	80,000.00	25	75	6	.....do.....	.....	.....	.....
Wyman Steamship Corporation ²	Andalusia.....	7,475	Sept. 30, 1920	110.00	24	97½	.....	Charter purchase.....	10	90	12 6 years.
Do.....	Arcadia.....	6,915	Aug. 25, 1920	110.00	24	97½	.....	.....do.....	10	90	12 Do.
Do.....	Ascutney.....	6,450	July 31, 1920	125.00	24	97½	.....	.....do.....	10	90	12 Do.
Do.....	Englewood.....	7,323	June 16, 1920	181.90	24	97½	.....	.....do. ⁴.....	.....	.....	.....
Do.....	Galesburg.....	7,323	June 3, 1920	181.90	24	97½	.....	.....do. ⁴.....	.....	.....	.....
Do.....	Pawnee.....	7,200	Aug. 30, 1920	124.00	24	97½	.....	.....do.....	10	90	12 Do.
Do.....	Pequot.....	8,900	Mar. 20, 1920	150.00	24	97½	.....	.....do.....	10	90	12 Do.
Richmond, New York Steamship Co.....	Lake Frances.....	3,930	Aug. 11, 1920	150.40	10	90	24	12 years.....	.....	.....	.....
Do.....	Lake Sterling.....	2,875	Sept. 4, 1920	147.73½	10	90	24	.....do.....	.....	.....	.....
Atlantic, Gulf & Pacific Steamship Co.....	Absaroka.....	8,521	.....	158.66½	10	90	24	.....do.....	.....	.....	.....
Do.....	Cape May.....	10,325	.....	164.50	10	90	24	.....do.....	.....	.....	.....
Do.....	Radnor.....	11,572	.....	170.05	10	90	24	.....do.....	.....	.....	.....
Do.....	West Carnifax.....	8,555	.....	175.75	10	90	24	.....do.....	.....	.....	.....
Do.....	West Haven.....	8,619	.....	166.19	10	90	24	.....do.....	.....	.....	.....
International Maritime Corporation.....	Eastern Maid.....	5,000	.....	160.00	10	90	24	.....do.....	.....	.....	.....

Luckenbach Steamship Co.....	Edellyn.....	11,876	.....	196.42	25	75	10	5 years	.....	.....
Do.....	Marica.....	11,876	.....	196.42	25	75	10	do	.....	.....
Do.....	South Bend.....	11,876	.....	190.34	25	75	10	do	.....	.....
Moore & McCormack Co.....	Glenora.....	7,400	.....	.....	10	90	24	do	.....	.....
Do.....	Gold Star.....	7,400	.....	.....	.....	.....	.....	.....	.....	.....
Do.....	Gharo.....	5,025	.....	.....	.....	.....	.....	.....	.....	.....
Do.....	Lake Benton.....	2,875	.....	.....	.....	.....	.....	.....	.....	.....
Do.....	Lake Grogan.....	4,200	.....	.....	.....	.....	.....	.....	.....	.....
Do.....	Mason City.....	5,175	Aug. 6, 1920	160.00	.....	.....	.....	.....	.....	.....
Do.....	Natirara.....	7,400	.....	.....	.....	.....	.....	.....	.....	.....

2 In hands of receiver. 3 Cost. 4 Applied for new terms. 5 Petition in to cancel.

TESTIMONY OF MR. WILLIAM DENMAN—Resumed.

The CHAIRMAN. Mr. Denman, you may proceed if you have left unsaid something you had in mind.

Mr. DENMAN. Now, Mr. Chairman, I desire to offer a statement on the matter of Diesels, which I can be examined upon, as Mr. Gillen is to be. The reason I ask to have it placed in the record is because I have drawn together in one place the matters that are scattered throughout my testimony, and so that anybody looking over my policy on Diesels, or what I recommend as the future policy of the Shipping Board, may find it in compact form.

The CHAIRMAN. Does it contain anything that you have not already said?

Mr. DENMAN. It contains certain matters which I have already stated, on which you can examine me, but I wish to bring it together, as Mr. Gillen has brought his testimony together, in a compact statement. It is not very long.

The CHAIRMAN. Perhaps if you will read it, it will put it in shape before the committee so that the members of the committee can examine you on it if they so desire.

Mr. DENMAN. All right. The purpose of my appearance before this committee is to urge the revival of my project as chairman of the Shipping Board to build a large fleet of Diesel motor ships.

The rejection was the climax in the tragedy of misfortunes of the Hurley administration. Despite its notable accomplishments, he has unconsciously contributed more to the success of our Scandinavian and British competitors on the sea than the most ardent of our few Anglo-un-American administration during the war.

When I put the word "emergency" into the title of the Fleet Corporation, it was to indicate the war emergency which compelled us to build so many oil-fuel steam engines, as well as our wooden hulls.

The obsolete character of the wooden hull required no explanation. The wasteful use of oil under the steam boilers, consuming nearly three times the fuel of the many existing motorships of the Danish East Asiatic and other fleets, was well known. For years these large motorships had sailed under my windows over the Golden Gate. Admiral Lord Fisher had already pointed out the approaching obsolescence of the marine steam engine.

When I became chairman of the Shipping Board, the East Asiatic Co. and other Scandinavian owners, in scores of voyages, some over a year in length and all around the world, had established the paramount commercial value of the Diesel motorship. It was then beyond either practical or scientific question or doubt.

I hand the committee the photograph of 21 of these vessels, all then in successful commercial use, some for years before that time. They range from 6,500 to 10,000 tons carrying capacity at over 10 knots speed, and some are over 11 knots speed. There were many more besides these of the design of these engines and of other designs.

The project for building them, the necessary license, the plant, the Cramps shipyard and the skilled workmen were all procured under my administration. There were many other Diesel plants available for their construction, a list of which I put in the record

on yesterday. A contract was offered us, and we were debating whether we would commandeer and make it a national project or accept the contract. It was my administration's contribution to the commercial future of the American mercantile marine. It would have taken no more time for the Cramps to complete the Diesel plant than to establish any one of the new plants for steam engines. The contract was for 9,600 deadweight tonners at 11.6 knots speed.

During the war Great Britain, which had many Diesel plants, some making marine and some making other engines, was compelled to turn to the building of submarine Diesels. The submarine Diesel is a more complicated and finer mechanism than these commercial marine Diesels, but vast quantities were turned out in the British yards, in those Diesel factories in Great Britain, during the activities of the war, and while we were building none with the Government money. Lord Pirrie's plant, the Harlan & Wolff yard, was using the same license that I procured, and actually constructed the largest commercial marine Diesel ship at any time built. This was in war time. This ship was the Glenapp, a marine Diesel cargo and passenger ship of upward of 15,000 tons dead-weight capacity and of more than 14 knots speed.

At the present rate of consumption it has been estimated by geologists and practical oil men that the American oil supply will be consumed inside 25 years. This is the occasion of Secretary Colby's note to the British on their mandate over the Mesopotamian oil fields. Can we waste two-thirds of our fuel oil, through steam boiler tubes and up the smokestack, in view of this world oil condition?

George Otis Smith, Director, United States Geological Survey, on November 17, 1920, at a meeting of the American Petroleum Institute, said:

In acknowledging the superior claim of the marine use of fuel oil, this priority must be qualified by the condition that even on the seas the best use should be made of the invaluable fuel. The marine steam-engine, even of the turbine type, must give place to the heavy oil engine, under the rule of getting the most out of a limited resource. The very facts that support the argument for the marine use of fuel oil, greater efficiency and economy of space and labor, can be cited in favor of the internal-combustion engine of the Diesel type as against the steam engine. The increased thermal efficiency of the new engine with its resulting addition to available cargo space or to cruising radius, is more than 2½ times that of the steam engine. The experience of the Bethlehem Steel Co. is that their new oil-engine ore carrier, the "Cubore," in continuous service between Cuba and Sparrows Point, Md., uses only 36.7 per cent of the fuel-oil consumed by a sister ship differing only in that it has the most modern type of steam plant. The tremendous economy thus possible in the marine consumption of fuel oil demands the immediate adoption of internal-combustion engines if the world wants to make the largest use of its oil resources for the longest time.

Our wasteful steamships, built for the war emergency, are hopeless in competition with these Diesel vessels. Motor ships carry no boilers or condensers, and but one-third the fuel. As a consequence they have over 12 per cent more cargo capacity. This in itself means a handsome profit in ship operation.

Over 60 per cent of the new cargo vessels ordered in Great Britain during the last six months are motor ships. Norway, Denmark, Sweden, and Holland build nothing else when they can get engines. Lloyd's agents are now inspecting the construction of 300 sets of oil engines. These aggregate 600,000 horsepower, which, in terms of 11-knot cargo ships, is a million and a half tons. The largest is a

British passenger and cargo ship of 15,760 tons dead weight and 14 knots speed. Six are of 14,000 tons dead weight and over.

This is active construction in Great Britain. The orders double this. There are 15 marine Diesel engine factories in Great Britain alone. Lord Pierrie controls four of them, three in Scotland and one in Ireland, using the same license we procured for the board's program in 1917. There are many more in Holland, Denmark, Sweden, and Norway. They are just beginning to operate plants for large size Diesels in this country. In all the billions the Government has spent, not a dollar has gone to build a Diesel engine large enough for a 10,000-ton freighter.

Our wasteful steam engines are dependent on British bunkers. We can not carry enough fuel to pay the loss up the smokestack and complete our long voyages. We must stop and beg fuel supply at the British and other bunkering stations on the China coast, in Japan, in the East Indies, at Suez, at Aden, in the Mediterranean, and in the South Atlantic.

How the British coerced our commerce by bunkering agreements before we entered the war, is now history. I am not seeking to attack it as a war necessity. The important thing is, they can do it again.

The sailing radius of a 10,000-ton Diesel ship is 28,000 miles on the oil in her ballast tanks. This is once around the world, past all the British and other bunkering stations, and "then some," as shipping men put it.

The United States can balance its fleet only by adding, or converting from steam, at least a million tons of motor ships. We should stimulate the building of Diesel factories and produce more than our British and Scandinavian competitors. If we do not, we have lost the battle for maritime supremacy, and will not have even a fair minor share in the world's sea carriage.

I have here a statement giving a partial list of Diesel-driven merchant motor ships at present building in Great Britain, which I will ask to have copied into the record. Only about one-third, I think, of the yards, or half of the yards, are shown here. The others have not reported out. But this list totals 65 ships of 583,600 dead-weight tons, and 227,800 indicated horsepower. I have a summary at the foot of this statement showing the fuel saving on this fleet. I won't repeat that. This is only a partial list. It contains nothing concerning the other yards enumerated in a paragraph at the bottom of the list, and nothing about the tremendous activity in Norway, Sweden, France, Italy, Denmark, and Holland, where, under various patents and various designs, large cargo and passenger-carrying ships of this type are being built.

(The statement referred to is here printed in full in the record, as follows:)

Partial list of Diesel-driven merchant motor ships at present building in Great Britain, Dec. 1, 1920.

Serial motor ships on order	Dead- weight tonnage per ship	Horse- power (indicated)	Name of shipbuilder.	Name of engine constructor.	Name of shipowner.
4	14,000	6,600	Harland & Wolff, Glasgow.	Harland & Wolff, Glasgow.	Glen Line, London.
6	10,000	3,200	do.	do.	do.
1	14,000	6,600	Barclay, Curle & Co., Glasgow.	do.	do.
6	9,000	4,000	McMillan Shipyard, Dumbarton.	do.	Co., Liverpool and
2	9,190	3,200	Harland & Wolff, Glasgow.	do.	London.
3	11,500	4,500	do.	do.	Do.
3	2,000	4,450	Mercantile Dry Docks Co., England.	Vickers-Petters (Ltd.), Ipswich.	Arthur Tate & Co., Newcastle-on-Tyne.
1	10,500	4,000	Wm. Doxford & Sons, Sunderland.	Wm. Doxford & Sons, Sunderland.	B. & J. Sutherland & Co., Newcastle-on-Tyne.
3	10,500	4,000	do.	do.	burg.
1	4,000	1,350	Cammell-Laird & Co., Birkenhead.	Cammell-Laird & Co., Birkenhead.	do.
1	5,500	2,750	Wm. Hamilton & Co., Port Glasgow.	do.	do.
2	10,500	3,250	Vickers (Ltd.), Barrow-in-Furness.	Vickers (Ltd.) Barrow-in-Furness.	, London.
4	10,500	3,250	do.	do.	Probably Tank-
2	10,500	3,250	do.	do.	Line), Liverpool.
2	10,500	3,200	Harland & Wolff, Belfast.	Harland & Wolff, Glasgow.	Do.
1	10,500	3,200	do.	Burmeister & Wain, Copenhagen.	Do.
1	11,000	4,000	Alexander Stephen & Sons, Linthouse, Glasgow.	Stephen-Sulzer.	Union Steamship Co. of N. Z., Liverpool.
2	10,500	4,000	do.	North British Diesel Engine Co., Glasgow.	British Steam Nav. Co., London
1	10,670	4,000	do.	do.	Do.
1	15,760	4,000	do.	do.	Do.
2	1,200	600	do.	do.	Royal Mail Steam Packet Co., London.
1	1,200	600	do.	do.	Lane & McAndrew, London
2	8,000	4,500	do.	do.	Owners unknown (England).
1	5,000	1,750	do.	do.	Spanish owners.
1	10,000	3,000	Walker	Swan, Hunter & Wigham Richardson, Newcastle-on-Tyne.	Danish owners.
1	6,500	4,250	Sir Wm Armstrong Whitworth & Co., Newcastle-on-Tyne.	Whitworth-Sulzer, Newcastle-on-Tyne.	Do
2	7,000	3,000	Ardrrossan Shipbuilding & Dry Dock Co., Ardrrossan.	Hawthorne Leslie-Werkspoor, Newcastle-on-Tyne.	British Tankers (Ltd.), London.
3	9,000	4,500	do.	do.	McAndrews (Ltd.), London.
1	10,000	3,250	Wm. Denny & Bros., Dumbarton.	do.	do.
2	3,000	1,000	Wm. Beardmore & Sons, Dalmuir.	do.	do.
65	583,740	227,900			

No information is available regarding Diesel engines and motor ships building by John Brown & Co., Clydebank; North Eastern Marine Engineering Co., Newcastle-on-Tyne.

The CHAIRMAN. Well, Mr. Denman, I understood from your statement made on yesterday that there are a number of factories which are equipped in this country to build large Diesel engines at the present time.

Mr. DENMAN. There are now building, just commencing to build, Diesel engines of large marine type.

The CHAIRMAN. For whom?

Mr. DENMAN. Private account.

The CHAIRMAN. Are there shipbuilding concerns that are building motorships of large tonnage in this country at the present time?

Mr. DENMAN. The Cramps have just begun building for the American-Hawaiian Steamship Line—that great fleet of vessels that used to steam from San Francisco to Atlantic ports through the canal and carried our bulk products by that route—they have just ordered two of the same type that I desired to have the board adopt.

Mr. Schwab did not have this license: the Cramps had it. Mr. Schwab set about to develop a Diesel of his own, of an entirely different type, what is known as the two-cycle type, and had one vessel running with the new type of Diesel in it, the *Cubore*, the vessel to which George Otis Smith, Director of the United States Geological Survey, referred in the statement I read.

And there are a number of other plants in the United States capable of undertaking the conversion or the building of engines for new Diesel vessels. The trouble about doing the thing on private account is this: Nobody knows to what point the Government is going to write down its steam fleet. Nobody knows what the policy of the Government is going to be with regard to a merchant marine. Capital is hesitating to invest, fearing that a weak-handed policy may make any ships unprofitable, and also fearing that when the Government writes down the values of its present fleet and begins to sell some of them at scrap prices, that the value of steamships will be utterly uncalculable, and therefore that ventures at this time are unwise. The Government has got to at once, if we are going to have a balanced fleet of vessels, arrange for something like the same amount of Diesel tonnage that our competitors have.

The CHAIRMAN. We have 1,400 ships, a large portion of which at the present are tied up. Would you advocate the Government, through the Emergency Fleet Corporation, building more ships with Diesel engines in them?

Mr. DENMAN. I think so, because you will not have any Diesels tied up. When the last steamship is tied up because it can not run on the sea your Diesels will be running at a profit; and if it is a question of maintaining our supremacy on the seas and getting our share of the commerce of the world, we should have these ships. It may be the Government can't afford it. It may be that it does not want to go ahead but will leave it to private capital.

The CHAIRMAN. My question is, Would you advocate the Government, through the Emergency Fleet Corporation, building more ships, when it already has a large fleet of steam vessels, to the number of some 1,400, a large portion of which are tied up?

Mr. DENMAN. I have my doubts whether I want the Government to act through the Shipping Board in any project. I want to see centralized control and not board operation in the matter of building ships. But I would say, in answer to your question, that if they can

not be gotten through any other agency of the Government, that the Government should balance its fleet. If it is the intention to go ahead and manage the fleet that it has, it is foolish to go into competition with our opponents and not have the weapons for the contest.

The CHAIRMAN. Mr. Denman, these facts that you have brought out here have been pretty well known in shipping circles for months, have they not?

Mr. DENMAN. Yes, Mr. Chairman.

The CHAIRMAN. How do you explain the fact that no American concern has undertaken, with the possible exception of the American-Hawaiian Steamship Co., to have constructed Diesel motorships?

Mr. DENMAN. In the first place, private capital has been loath to enter into the shipping business in competition with the Government. It does not know where it is going to land. Very few new ships have been purchased, but the fact is that there is strong inquiry as to where they can be built and a strong demand for Diesel motorships. The Government of Norway took three 20-year-old hulls and equipped them with Diesels of this type that Lord Pierrie is using, in the Harlan and Wolff yards. As I have said, the hulls are 20 years old, and the Diesels were Burmeister and Wain Diesels, and those vessels were sold to New York owners six months ago at \$240 a dead-weight ton—even though the hulls were, as I have said 20 years old—as against \$175 to \$180 a ton for new steel turbine steamships. You can therefore see what the demand is for them if they can get them.

The CHAIRMAN. But if there is such a great advantage in this type of ship, if they will be carrying freight when the last steam-propelled vessel is tied up, why should private operators or steamship companies hesitate on account of the United States Government's fleet about constructing these ships and going ahead and operating them?

Mr. DENMAN. Because, first, there is general hesitation about expanding in the steamship business with the Government's policy unsettled. Second, inability to get the engines if they wanted them for quick delivery, with uncertainty as to future forces on the sea. Now, if we had had built in 1917 a large group of these Diesel factories, then these Americans could have gone to them and gotten their engines and the Government would not now be faced by the problem of a semiobsolete type of vessel, and bantering the question as to whether private or Government ownership should operate them.

The CHAIRMAN. You had procured a license from one of the largest construction concerns in America?

Mr. DENMAN. The Cramps had that.

The CHAIRMAN. Early in your administration?

Mr. DENMAN. Yes, sir.

The CHAIRMAN. I assume they now retain that license.

Mr. DENMAN. They are building ships for the American-Hawaiian line.

The CHAIRMAN. They still retain that license, do they not?

Mr. DENMAN. Yes, sir.

The CHAIRMAN. And they have had it all that time?

Mr. DENMAN. Yes, sir.

The CHAIRMAN. And they were in a position to go ahead and build some engines for private account if they wanted them?

Mr. DENMAN. Not during the war. They have been loaded up with contracts from the Government for steam vessels.

The CHAIRMAN. They have been engaged in other work or could have been, since the cancellation of contracts in March, 1919?

Mr. DENMAN. No; they had been building a Diesel plant. I do not know when they began, but they are building it now.

The CHAIRMAN. They are building it now?

Mr. DENMAN. Yes, sir.

The CHAIRMAN. How long will it take to construct a Diesel plant?

Mr. DENMAN. They had a Diesel plant at the time, 1917, for the purpose of this project—

The CHAIRMAN (interposing). Sufficient to build those 24 engines you referred to; some 20 or 24, I believe?

Mr. DENMAN. Yes, sir.

The CHAIRMAN. They have had that all along?

Mr. DENMAN. No; they acquired it for that purpose. They went over to other business. As a matter of fact what happened during the war was that these Diesel plants built steam engines. If you talk about converting steam plants to Diesel engine plants, the Diesel plants built steam engines, and of all the topsy turvies I have ever heard of that was the most extraordinary.

The CHAIRMAN. Did you ever bring this to the attention of Mr. Schwab when he was acting as Mr. Hurley's assistant?

Mr. DENMAN. No, I did not. I assumed that the recommendations as to type came from the operating end.

The CHAIRMAN. Well now, have you any knowledge, Mr. Denman, as to whether or not the Fleet Corporation or the Shipping Board did actually have constructed some Diesel engines which, upon a try out, proved to be failures?

Mr. DENMAN. I do not know whether they proved to be failures or not, Mr. Chairman. But they were not of the type of the Danish East Asiatic Fleet and those that these other great fleets were using. They were smaller than were necessary for a 10,000-ton type of ship, which is about the cargo-carrying unit.

The CHAIRMAN. You let contracts for a great many ships of less tonnage than that?

Mr. DENMAN. Oh, yes.

The CHAIRMAN. And could not Diesel engines have been put in smaller types as well as in 10,000-ton ships?

Mr. DENMAN. Yes, sir; and be very valuable in certain services.

The CHAIRMAN. Do you know whether or not they actually did have Diesel engines for smaller ships which, upon try out, were pronounced to be failures?

Mr. DENMAN. I do not know whether they were pronounced to be failures or not. I understand that those small engines that were ordered by the Shipping Board, of a type that at that time was not developed, and not such as the Burmeister and Wain and the Werks-poor type, were not completed for the Shipping Board, and I am told were completed for other persons and successfully completed and that the vessels had good engines.

The CHAIRMAN. They have what?

Mr. DENMAN. That the engines are good engines.

The CHAIRMAN. If I get your recommendation correctly as read from your statement which you made, it is that the Government should either go into the building of motor-propelled ships or assist private concerns in having a fleet of motorships built and developed.

Mr. DENMAN. That is, if the Government is going to adopt a vigorous policy for the purpose of entering into overseas competition. If it is going to have a lax hand, if we are going to drift along as we did, controlled by British and German propaganda, for years in this country, affecting every ship measure that we desired to have put through by the Congress; if the policy is going to be to drift along, then I answer "no." But if we are going to get into the game and drive it through, "yes."

The CHAIRMAN. In event that the Government is going to pursue a vigorous policy in behalf of the merchant marine, what is to become of this fleet of steam vessels; that is, if we are going to embark in constructing a motor-ship fleet or going to assist in the development of a motor-ship fleet?

Mr. DENMAN. Exactly what will become of the steam vessels of our opponents. The vast mass of fleets of the world are steam. They are gradually introducing the motor ship as the modern type of propulsion. We want to keep pace with them. These vessels will be used, gradually becoming obsolescent, and will go on the cheaper runs and the shorter runs, where saving of fuel does not mean so much. We must keep pace at least with our competitors in the type of ship that they are using. We are more in need of it than they are, because, as I have said, we are a high-wage country, and the Diesel engine cuts out a certain number of operators in the engine room. We are a bulk-carrying country, and we want space and large space on our ships. We are an oil-producing country and have the oil for ships. We are a long-voyage country, across the Pacific and the Atlantic, and in the long-voyage savings are the savings in fuel consumption and larger cargo space.

The CHAIRMAN. Isn't it a fact that practically all of the commerce brought to our ports today in competition with our own fleet arrives in steam-propelled vessels?

Mr. DENMAN. That is quite true, because the bulk of the fleets of the world are still of steam, but the fact is——

The CHAIRMAN (interposing). There are 21 of these vessels floating around somewhere.

Mr. DENMAN. Oh, there are over a hundred of them.

The CHAIRMAN. How is it that none of them get to the United States?

Mr. DENMAN. Why, Mr. Chairman, I thought I described on yesterday the voyages those vessels take. They are sailing in and out under my window over the Golden Gate constantly, and unless California is out of the United States they are coming to a port in this country and carrying cargoes to and from that port. The fact is that the Pacific coast is so far from you in the East that the Pacific coast conditions are not known to our Atlantic coast men, just as I wanted somebody on the Atlantic coast to be the chairman of the Shipping Board for the reason that I did not feel I was acquainted with the Atlantic coast conditions. The United Fruit Co. has been using Diesels; the Atlantic Transport Co. is using them; the Hamburg-American line has been using them. The Hamburg-American line, at the time the war came on, had orders out for a very large fleet of them, of the Buremister and Wain type. They are also experimenting with another type of them in Germany.

The CHAIRMAN. Do you know whether or not experiments are in process in this country for the development of an American type of this Diesel engine?

Mr. DENMAN. That is the same sort of thing we had in the matter of the Liberty motor. Of course we want to improve it.

The CHAIRMAN. I asked you whether or not you know that is going on.

Mr. DENMAN. Well, I can tell you something about that. About a year ago it was announced that we were going into some experiments on what was known as the Deisel electric drive. Now, the electric drive has been very successful on our war ships; and where huge engine powers are involved, 100,000 horsepower for instance, as against 3,000 or 4,000 horsepower used on the freighters, you can see where the value of the electric drive would come in. On the naval ships there is economy and facility of operation gained by taking those enormous powers and transmitting them through electricity to the shaft rather than by trying to put the enormous power directly on the shaft by mere physical action. That is a great gain. Now, it has been suggested that the same thing might be true in transmitting the power from the low-powered Diesels to the shaft. It is an experiment; I hope it succeeds. But the interesting thing is, Mr. Chairman, that, though announced a year ago, there is no Diesel electric drive ship running, and I understand no Diesel electric drive ship under construction.

Now, gentlemen of the committee, by the time you have got your experiments developed, two or three years will have gone by; the commerce of the world will be established on other people's ships to a certain extent, to a large extent I will add, and will be out of our hands and we will be out of the race. These Diesels are proved things. It is just like the Babcock and Wilcox boiler, or the triple expansion engine, or any of the types that were advanced in the nineties and eighties and which are now going into obsolescence.

The Diesel engine in 1917 was a proved commercial success, and those 21 ships, a photograph of which I left here, prove it; as the other 100 now in existence demonstrate it every day.

When people come to you and tell you the Diesel is an experimental matter I ask you that you show them these 21 ships, and ask them if they have read the reports of trips that are given by the Danish East Asiatic Co., which reports they give out and are glad to give out. Ask if they have seen them, and have noted the tremendous saving and economies in operation annually. The Danish East Asiatic Co. is one of the most prosperous steamship companies in the world and has been since the beginning of the use of these motor ships.

The CHAIRMAN. Can not you understand that the new administration coming into the Shipping Board upon your retirement, finding contracts having been awarded for hundreds of ships, with ships under construction already requisitioned, with ships in the fleets on the high seas commandeered, with arrangements having been made for the cessation of bridge building and of building operations generally except where absolutely necessary, with the steel supply practically diverted toward shipbuilding operations, with all the engine builders of the country arranged with for the construction of steam engines—

Mr. DENMAN (interposing). And with the Diesel engine builders at that time, Mr. Chairman.

The CHAIRMAN (continuing). With the steam engine builders having been arranged with, or contracts having been entered into with them, with the great emergency which confronted the board, that they would naturally hesitate about departing from that program and entering upon a new line of engine construction using a different fuel.

Mr. DENMAN. They were not departing from my program. You are describing things that I handed over to them, and a part of that was this contract which was not signed; nor were the facilities commandeered, and it would not have interfered with any building of steamships.

The CHAIRMAN. The contract was not signed because you had not decided which way you would do it, had you?

Mr. DENMAN. It was not signed by my successors because they did not decide——

The CHAIRMAN (interposing). No. it was not signed by you, you told us on yesterday, because you were debating whether you would commandeer the plant or whether you would have it done under contract.

Mr. DENMAN. That is quite correct.

The CHAIRMAN. Well now, you had not decided that matter?

Mr. DENMAN. Well, I had had it two days.

The CHAIRMAN. You took two days to decide?

Mr. DENMAN. No; I say I had two days or maybe three. The fact is that the project was decided on and was handled over to our successors with the rest of our projects. The British were building them during the war, and would have had a tremendous fleet if they had not used all their Diesel plants for building submarines; and they were able to translate their Diesel factories for land engines into Diesel factories for submarines, which engines for the latter use are more complicated than the other engines—and they did this during the very middle of the war, when she was almost starving.

The CHAIRMAN. Did the Navy build any Diesels for submarines?

Mr. DENMAN. Yes, sir; two of these factories I mentioned.

The CHAIRMAN. Built Diesel engines for submarines?

Mr. DENMAN. I think they did. But I would prefer for the Navy to state that.

The CHAIRMAN. I am asking only for your knowledge. You apparently have made a careful study of this problem and I am asking if you have inquired or if you know whether the Navy built any Diesel-propelled submarines or other craft during the war, or made contracts for them with Diesel engine builders.

Mr. DENMAN. Yes; Mr. Chairman, it did.

The CHAIRMAN. It did?

Mr. DENMAN. Yes.

The CHAIRMAN. It might well be, Mr. Denman, that your successors went into this same question that you have got up, to the point of making a decision upon it, and in the exercise of good faith and the use of their sound judgment determined that it should have been delayed.

Mr. DENMAN. That might have been but it was not a fact.

The CHAIRMAN. What is the fact?

Mr. DENMAN. The fact is that after I came on in January and reminded Mr. Hurley of our discussion on the previous July and

August, that he had forgotten that there was a contract offered and wondered whether it was in the files and sent down and got it. Now, I have no doubt—and I am not criticizing the good faith of those gentlemen. The last thing in the world I want to do is to criticize Mr. Hurley's good faith. When we had up the fight on the Cunard ships he was with us. Hurley has been right, but he didn't know anything about shipping. All he has done on Diesels is to turn out journalistic articles praising them—I call them journalistic ersatz and not real ships.

The CHAIRMAN. He had not signed the contract in January?

Mr. DENMAN. No.

The CHAIRMAN. Did you follow it up?

Mr. DENMAN. I did not follow it up. I have no interest in it now except as a citizen, and I could not hang on and press Mr. Hurley; besides, it would be unbecoming in the case of a man who had left the service under the circumstances I had left it, to be butting in.

The CHAIRMAN. Did Mr. Hurley advance any reason why it was not gone through with?

Mr. DENMAN. Yes; because they were not shipping men.

The CHAIRMAN. I am referring to the visit of January when you say he found the contract when you asked him about it.

Mr. DENMAN. I assume he found the contract.

The CHAIRMAN. I understood you to say he sent and got the contract.

Mr. DENMAN. I so understand. I was told by some members of the board afterwards that they got the contract and discussed it at that time. The Delaverne plant was engaged in manufacturing steam engines, and I understood that the thing was dropped in the general mess that arose out of shipping accounting and other difficulties.

The CHAIRMAN. Mr. Denman, when we adjourned on yesterday, you were proceeding to discuss another matter.

Mr. DENMAN. I was speaking, Mr. Chairman, of the hysteria that swept over Washington, almost Anglomaniac in character. At the time and prior to the time of the arrival of the British Mission here the propaganda against the Diesel had already begun. I have seen something of hysteria in my lifetime. I started out with it when I was a football manager, and have seen college crowds almost go crazy. I have seen Central American mobs, and was through the great fire in San Francisco and the hysteria and the depression that followed it. The situation in Washington paralleled these things.

I spoke on yesterday of the political-minded type. Men of that type ran with the popular movement of the time. I spoke of the hysteria at tea tables; I attended no tea tables myself, but the gossip and the spread of the doctrine went all through those circles and elsewhere.

Now, gentlemen of the committee, the reason why Great Britain did not want us to build Diesels is contained in my statement. They were planning for them, were building them during the war, and are building this great number of vessels now. They got the Mesopotamian oilfields out of the Versailles negotiations—subsequently thereto, but through the plans laid there. They were a coal-burning nation at that time, and prior to the acquisition or prospective acquisition of

those oil fields they were not seeking to develop anything in regard to the oil-burning vessels.

I spoke on yesterday of the Cunard ships as illustrating the type of difficulty that we encountered in Washington. Now, there was a disagreement in the board regarding the Cunard ships. Mr. Stevens wanted to turn them back. He did not know that the President had instructed me to get them. There were 30 members of the Congress who knew it, because the whole matter was discussed in the White House conference, at what I called the only union war conference that was had during the war.

Mr. CONNALLY. Why didn't Mr. Stevens know it? He was a member of your board, wasn't he?

Mr. DENMAN. He had started his opposition to it before I had communicated to him the President's desire. In that connection I would say that what we all wanted to do with regard to the Cunard ships was to get them back without public knowledge of it; and my appointment as conferee with the British commission was disconnected from my office as chairman of the board. My negotiations with them were——

Mr. CONNALLY (interposing). You were acting in a dual capacity, as a sort of diplomatic representative and also as chairman of the Shipping Board, is that it?

Mr. DENMAN. Whether you call it diplomatic or not it was in connection with getting ships. I was chairman of the Shipping Board; in fact, I had three positions, you might say, at that time: First, I was a conferee working in connection with the British mission, which lasted several weeks; second, I was chairman of the Committee on National Defense, made up originally of shipping men of New York, with whom I spent a very large portion of my time; third, I was chairman of the Shipping Board. I was instructed and desiring to coordinate all those avenues of activity affecting ships.

I am not criticizing Mr. Stevens, because he was sincere in his point of view. I am not going into that. I am merely pointing out the difficulties that arose there. Mr. Stevens brought us a great many men, brought to our employment a great many good men—Mr. Joseph Cotton, among others, a very able lawyer, and now one of the leaders of the New York bar, in Mr. McAdoo's firm. On the whole he made many contributions to the work of the board. I am merely trying to give you a picture of the situation. Speaking again of Mr. Stevens, his work with the labor group was excellent. These questions I mention are merely disagreements as to policy.

Mr. CONNALLY. Pardon me, but I was not inquiring about Mr. Stevens. I do not know him and do not care anything about him, but was wondering why he as a member of the board was not told by you about this.

Mr. DENMAN. Everything leaked in that board.

Mr. CONNALLY. Except that.

Mr. DENMAN. No; I say that everything that I told in that board leaked. We were trying to prevent a public controversy over the Cunard ships, and to get them back without having the newspapers conduct, possibly, a fight on Great Britain while we were going to war with her as an associate if not as an ally. As a matter of fact, in a veiled way, the whole question of the Cunard ships was voted on in the Senate, and there it was very carefully kept, although the form of the resolution was a very obvious thing, and was adopted

by a vote, I think, 49 to 7 or 8 in the month of May, 1917, and the policy I advocated was supported.

The CHAIRMAN. Did you as chairman of the board approve of a plan to build concrete ships?

Mr. DENMAN. No; that question did not come up in my time. There had been a discussion of concrete ships, but it had not gotten to a definite proposal.

The CHAIRMAN. No contracts were signed while you were chairman for concrete ships?

Mr. DENMAN. No; not only were no contracts signed but no proposals were made to us.

The CHAIRMAN. Did you take up the question of composite ships?

Mr. DENMAN. I did not personally.

The CHAIRMAN. Were any contracts signed?

Mr. DENMAN. Yes, sir; there were contracts signed, that is to say, as an experiment. The composite ship involved the use of a certain amount of steel, and it was a question whether or not the gain in wood that was put on the vessels overcame the risk in attempting to fasten wood and steel together. You see you have diverse materials, and fastenings suitable for wood might not be suitable for steel. You have to run a rivet through both the wood and the steel in that type. I understand that the ships, as an emergency proposition, were fairly successful.

The CHAIRMAN. Did you have any advisers or unofficial assistants from the shipping world with whom the board consulted as these various problems came up before it during your administration?

Mr. DENMAN. I was the chairman of the shipping committee of the Council of National Defense, and I had many consultations with those gentlemen, and they were very helpful. They knew the game, and——

The CHAIRMAN (interposing). I asked you if you had any unofficial advisers of shipping men with whom you consulted as these various problems came up before the board.

Mr. DENMAN. I am speaking now of those men.

The CHAIRMAN. Were they shipping men?

Mr. DENMAN. All of them were shipping men.

The CHAIRMAN. So you did have them?

Mr. DENMAN. Oh, yes; I presume I had the strongest group in the United States.

The CHAIRMAN. Did you discuss the question of this Diesel engine with them?

Mr. DENMAN. All those men agreed that the Diesel was advisable. The specific——

The CHAIRMAN (interposing). Can you give us the names of some of them?

Mr. DENMAN. Mr. P. A. S. Franklin; Mr.—I can give you a list of that committee, but the specific men who had had Diesel experience among them, I do not recall.

The CHAIRMAN. No; I am not talking about men who had had Diesel experience or anything else. I want to know if you as chairman of the Shipping Board had the benefit or the opportunity of consulting with practical shipping men, and if you did consult with them.

Mr. DENMAN. I consulted day after day——

The CHAIRMAN (interposing). Can not you give us their names?

Mr. DENMAN (continuing). And I consulted with them many times at night. I was going to give you the names, but you restricted me in my answer.

The CHAIRMAN. No; I said in the various problems that came before the board did you consult these shipping men of practical experience. I did not restrict your answer.

Mr. DENMAN. Mr. P. A. S. Franklin, Mr. Raymond, Mr. Sherman, of the Grace Co. and the Pacific Mail Co.; Mr. Bull and Mr. Munson in the West Indies and the South American trade. There was a gentleman from the Standard Oil fleet, but I have forgotten his name. I will think of it in a moment.

The CHAIRMAN. Was Mr. Luckenbach of the Luckenbach line one of those whom you consulted?

Mr. DENMAN. Yes; Mr. Luckenbach came to us, and I remember we were particularly indebted to him in the matter of personnel. We had two or three men proposed that Mr. Luckenbach gave us the history of and saved us making one bad break in employment. Mr. Luckenbach had had a very stiff experience—he was outside of the inside group in New York, had been an independent, and had learned shipping economy under the fiercest competition. As I say, I did not know the inside of the New York shipping world, and those gentlemen that I consulted with were, many of them, or at least some of them, tied up with British interests. My opinion of those men was that if they could have been free from that influence, as they would liked to have been, and could have run their ships as they wished, they would have run them strictly American.

Take Mr. Franklin, who was the head of the International Mercantile Marine. That was a parent company, owning all or nearly all the stock of three or four English fleets owned by English corporations. Under a wise provision of the English law, from their standpoint, the directors of those corporations had to be Englishmen, and during the war had to be persons agreeable to the Central Ship Control. Mr. Franklin wanted to get those ships out and make it an American company. At that time he was being bitterly attacked by various people, as being tied up with the British. To mention Franklin in connection with measures in the Congress at one time would have instantly suggested a British connection. But so far as his work with me was concerned, and the advice that I got from him, Mr. Franklin—and I analyzed what he said closely—was never un-American.

Now I repeat, as I did not know the inside of the New York shipping organization I had to proceed very cautiously.

The CHAIRMAN. Was there anybody on the board who did know it?

Mr. DENMAN. No.

The CHAIRMAN. Didn't Mr. Baker know it?

Mr. DENMAN. Mr. Baker's experience was in one branch of the International Mercantile Marine. Mr. Baker retired, as you will recall, before the board was organized. Mr. Donald ran a small line of ships in the South American trade, but Mr. Donald did not know these larger men in the shipping world. I remember once, when this committee came to my office, of Mr. Donald asking me to point out who certain well known shipping men were in the group. So I was helpless except as I was able to discover for myself the situation, but by the time I left I was pretty familiar with the situation.

The CHAIRMAN. Did you have any official of the Board or Fleet Corporation whose duty it was, before a yard was established, to

visit the proposed site and report back to the Board or the Fleet Corporation before the contract was signed?

Mr. DENMAN. I understand that Gen. Goethals had such inspectors. I myself was not familiar with it.

The CHAIRMAN. Did you make sure that that was done?

Mr. DENMAN. I did nothing in the way of interfering with or inquiring into the activities of Gen. Goethals, and I agreed when he came there that he should have absolute control of the details of manufacturing ships. And that is the way it should have been, and the responsibility should have rested there. It was impossible for me to enter into all those matters of policy, to conduct all the different negotiations, try to coordinate shipping as a living enterprise, and also attempt to manufacture ships.

The CHAIRMAN. Would you call that a question of detail, as to whether a new yard, a new plant, was to be established?

Mr. DENMAN. In the mass of the business, yes. If we had but one yard already existing, or one proposed new yard, and we were building half a dozen ships, and there were any policies to be established, I of course would have followed that. But in the great expansion all that was turned over to the general manager. As a matter of fact, Mr. Chairman, if we could have gotten the Hog Island question out of the way, and the Diesel project started, Gen. Goethals would have been as independent of interference of the board as Mr. Schwab believed when he became director general. I was responsible for the Emergency Fleet Corporation as distinguished from its general manager, receiving the power from the President to build ships, and it was my intention, as soon as the Diesel and great fabricating question was out of the way and I knew the details so that I could explain them to the Congress, that we should have nothing more to do with the details of construction: and the general manager, as director general of shipping, should be made personally responsible and have the power and the full power to carry out the program. I believe in that method. I believe in placing individual responsibility and keeping your hands off.

The CHAIRMAN. You felt that when a contract came up to you recommended by Gen. Goethals for the establishment of a new yard at a point where no shipping activities had ever before occurred, that all you need look for was the signature of General Goethals for you to sign the contract?

Mr. DENMAN. Yes; and for the reason that we never would have gotten the efforts that we did get if we had not put ways where ways had never existed before; in some places, in ports of other places where ships had never been built before.

The CHAIRMAN. And don't you know that you put ways where ways had never existed before and that you never got a ship off them?

Mr. DENMAN. I do not know that, but I imagine quite likely that happened.

The CHAIRMAN. What advantage could that be in the building of this great fleet?

Mr. DENMAN. No more advantage than the gunpowder we had after the war was over. If you want to call it a break, it was one of the breaks, or one of the cases of unsuccessful attack in the ship-building program. It is just as any attack in the war might have been unsuccessful, as many of them were, when made by the troops.

The CHAIRMAN. Didn't you have some well-established policy as to the establishment of new shipbuilding plants, as to where they should be, and the number of ships that were to be constructed, and the number of ways to be built? Now, of new plants, I mean; didn't you have some general broad policy along that line?

Mr. DENMAN. Yes; I think Gen. Goethals had the general broad policy of——

The CHAIRMAN (interposing). I mean, didn't you as chairman of the Shipping Board, and the Shipping Board itself, before it got to Gen. Goethals, before this particular discretion was turned over to him, have some particular policy under which new shipbuilding plants were to be established and the matter as to their location laid down.

Mr. DENMAN. There was a broad policy, but the power was allocated, Mr. Chairman, to the Emergency Fleet Corporation, and not to the Shipping Board.

The CHAIRMAN. What was the broad policy of the Shipping Board with reference to the construction of new shipbuilding plants?

Mr. DENMAN. To construct new shipbuilding plants wherever the technical investigation indicated that we might establish a plant, get the labor; and, better than that, get the managerial energy and capacity to assemble the superintendents and draftsmen, because drafting is an essential thing in beginning ships—and particularly to find labor that was adaptable to the building of the class of ships to be built. For instance, in building wooden ships it is desirable to get as near as possible men who are experienced in handling timbers, even though they may never have slung an adz in a ship's hull or in a yard where timbers for ships are prepared; to get loggers and millmen familiar with handling large timbers is more desirable than preachers and unskilled labor of various kinds, which finally had to be drafted.

The CHAIRMAN. Did you ever decline to sign any contract that came to your desk with Gen. Goethals's approval?

Mr. DENMAN. No. I asked for modification in some cases.

The CHAIRMAN. Did you ever ask Gen. Goethals to recommend or to approve contracts which you or the members of this committee had disapproved of?

Mr. DENMAN. No.

The CHAIRMAN. Did you in any way yourself, or by request of others, attempt to influence General Goethals's decision in the recommendations he made as to the awarding of contracts?

Mr. DENMAN. No; Mr. Chairman, and I have not done it since in my maritime practice, which has brought me in contact with many yards since I left the Shipping Board. I have made no attempt at any time to secure any contracts for any clients of mine.

The CHAIRMAN. Were you president of the board when the question of the Austrian ships came up?

Mr. DENMAN. Yes; but my connection with that was not as president of the board, although I was president, and I was chosen for that reason. I was the direct agent of the President, and he had a special fund given him by the Congress, which was used for that purpose.

The CHAIRMAN. Well, the board passed on the question of the Austrian ships, did it not?

Mr. DENMAN. No, sir; it had nothing to do with them.

The CHAIRMAN. The Shipping Board did not?

Mr. DENMAN. No.

The CHAIRMAN. Do you know whether or not the minutes of the Shipping Board show that it participated in the question of the disposition of the Austrian ships?

Mr. DENMAN. You are speaking of disposition now. I was speaking of the purchase. The disposition of the Austrian ships was made after I left.

The CHAIRMAN. Well, do you know whether or not the minutes of the Shipping Board show that it participated in the acquisition of the Austrian ships?

Mr. DENMAN. No; they do not, Mr. Chairman. If you want the whole story——

The CHAIRMAN (interposing). I am asking you now whether the minutes of the board disclose that the Shipping Board participated in the negotiations or the dealings had with reference to the acquisition of the Austrian ships.

Mr. DENMAN. I can say no, the minutes do not show that, because the Shipping Board did not have anything to do with the acquisition of the Austrian ships. But the Shipping Board had had negotiations prior to that for their charter, but the board itself had nothing to do with their purchase. That was a new plan proposed by the President and carried out by Mr. Baruch and myself.

The CHAIRMAN. Didn't you appear before the War Industries Board as chairman of the Shipping Board in the matter of the acquisition of the Austrian ships?

Mr. DENMAN. No; I appeared before the Council of National Defense, at their request, to make suggestions as to where we could get tonnage for immediate use. And at that time it was contemplated that we would enter into chartering arrangements with the American purchasers of the Austrian ships.

The CHAIRMAN. Didn't you appear before the War Trade Board, as chairman of the Shipping Board, in that connection?

Mr. DENMAN. It was organized after that time.

The CHAIRMAN. The War Trade Board was not then organized?

Mr. DENMAN. No, sir.

The CHAIRMAN. Then this is a fourth capacity in which you appeared while you were chairman of the board. One was as chairman of the committee of the Council of National Defense, and the others were as representative of the President in connection with the Cunard contract, and chairman of the Shipping Board, and then you also appeared in another capacity with reference to the acquisition of the Austrian ships.

Mr. DENMAN. That is correct; although the Cunard matter was under way by me before I got the President's indorsement of what I purposed to do.

The CHAIRMAN. Undertaken on your own account?

Mr. DENMAN. Yes; a function in a war way.

The CHAIRMAN. As representing any particular interest?

Mr. DENMAN. I do not think I thought much about that; I wanted to get ships.

The CHAIRMAN. For whom?

Mr. DENMAN. For the United States.

The CHAIRMAN. Was this the result of some conference with the President that this matter was turned over to you? Did you bring it to his attention, do you mean?

Mr. DENMAN. I brought it up at this session of the allied representatives and of the House and Senate, which was held in the White House on the 9th of May, 1917, at which my whole project for building steel and wooden ships then embodied in legislation in a proposed bill, was discussed by those gentlemen. As I look back on the things I did in Washington I believe that was one of the most significant. I think if every bill, the food bill, and every one of the large war measures, which were under discussion and bitter discussion, in the two Houses, had been the subject of the kind of conference that we had over our legislation, that many of the difficulties which arose in the Congress would have been smoothed over.

The CHAIRMAN. Well, you were chairman of the Shipping Board at that time?

Mr. DENMAN. I was chairman of the Shipping Board from the 20th of March until the 24th of July.

The CHAIRMAN. And this was on the 19th of May.

Mr. DENMAN. The 9th of May.

The CHAIRMAN. Yes; the 9th of May.

Mr. DENMAN. Yes, sir.

The CHAIRMAN. You were chairman of the Shipping Board at that time?

Mr. DENMAN. Yes, sir.

The CHAIRMAN. Did you start to add to your answer?

Mr. DENMAN. I presented to the assembled group of legislators and the President, our whole shipping program, and I pointed out that in order to make it successful we would have to stop the building of high buildings and steel bridges and run all the yards on the two or three shift basis, and that these Cunard contracts stood in the way. And I was requested by the President, acting as conferee with the British Commission, to obtain from Mr. Balfour an amicable agreement for their return.

The CHAIRMAN. How did you secure an appointment from the President to negotiate with reference to the acquisition of the Austrian ships? Was the appointment in writing?

Mr. DENMAN. No; and the circumstances were these: At the time the Council of National Defense was asking concerning the obtaining of additional tonnage, I think under the pressure of the pleadings from the French, and we started in to negotiate with the Pyne syndicate and its representatives in New York for a charter of the vessels. Subsequently, and I have forgotten the exact date but it was in the middle of April, the President asked me about this tonnage, and I assume that probably Mr. Baker, who was the chairman of the council, had been talking to him about it, because he asked me not to secure a charter but to secure the ships, and to secure them at cost, so that in the first negotiations for the purchase of ships there would be an example to the country on a no-profit transaction. I was opposed to this—

The CHAIRMAN (interposing). Isn't it a fact that notwithstanding you acted in these several other capacities, that the reason you were appointed was because you were chairman of the Shipping Board,

and these were shipping problems, and that rather than have the entire board act upon the matter the President asked you to carry out the negotiations?

Mr. DENMAN. That is correct.

The CHAIRMAN. They were shipping problems, were they not?

Mr. DENMAN. Oh, the Austrian ships were a splendid addition to our fleet.

The CHAIRMAN. In none of these other capacities did you receive any appointment or commission actually signed by the President?

Mr. DENMAN. I received notification from the State Department in connection with the conferences on ships, but what communication passed between the President and this department I do not know.

The CHAIRMAN. Mr. Denman, you never received any appointment or commission signed by the President designating you as commissioner or conferee or anything else?

Mr. DENMAN. I did not receive it; no; not in the sense of having had handed to me a paper with the signature of the President thereon.

The CHAIRMAN. Did you make the appointments of the various officials of the board?

Mr. DENMAN. No; I made no appointments. I had no power to do so.

The CHAIRMAN. Who had the power?

Mr. DENMAN. The board.

The CHAIRMAN. Did you sign the commissions for the various appointees of the board?

Mr. DENMAN. My recollection is that the only thing we did was to pass a resolution by the board.

The CHAIRMAN. Who appointed, for instance, the stenographers to the board; did you appoint them?

Mr. DENMAN. Yes; they were all appointed by resolution.

The CHAIRMAN. And as president of the Emergency Fleet Corporation, how were the officials of that organization appointed?

Mr. DENMAN. By Gen. Goethals.

The CHAIRMAN. You made no appointments to the Fleet Corporation?

Mr. DENMAN. None whatsoever.

The CHAIRMAN. Did you ever ask that anybody be appointed in that organization?

Mr. DENMAN. No. There was a question as to whether Mr. Eustis should remain with our organization or should go with Gen. Goethals and Gen. Goethals and I had some discussion over that matter and I said it was for him to decide, but that I thought Eustis would be useful to him. They ultimately had a disagreement and Eustis left the Emergency Fleet Corporation and remained an employee of the Shipping Board, and he finally devised that scheme for cutting vessels and getting them out of the Great Lakes. I say he devised it; I mean he perfected it. It was well known at the time.

The CHAIRMAN. If Gen. Goethals was vested with this broad discretion with reference to the establishment of new plants and new yards, and with recommending and signing of contracts, what was there that brought the Hog Island project to your attention and which resulted in a difference of opinion between you and the general?

Mr. DENMAN. The magnitude of the project and the public attention that it occupied; the imminence of our demand for more money, to be made before the Congress, and my obligation to appear before congressional committees. All that we desired from Gen. Goethals was a more complete statement as to the project, and I believe if we could have convinced the General that it was not the beginning of a series of invasions of his prerogatives that we would have had no difficulty there.

The CHAIRMAN. Have you some questions, Mr. Foster?

Mr. FOSTER. Nothing further than the one I inquired about yesterday. I want to ask you, Mr. Denman, if during the time you had charge of the contracts the Skinner and Eddy contract, in Seattle, in the form referred to yesterday, came up? I gathered the information out there, Mr. Denman, that it was a contract peculiar and different from others in that no inspection of their books and accounts was permissible unless they had authority from the home office in the East. I thought you might give as some information as to how such a contract would be in the position of standing out by itself as to this provision from others on the coast.

Mr. DENMAN. My impression is that Skinner and Eddy got their contract after my time, and if it was after my time I would not know.

Mr. Foster. I asked you because you referred to it.

Mr. DENMAN. I was referring to something entirely different from the matter of expense or conditions of the contract. I was referring to war efficiency. I know nothing of the details of that contract.

Mr. FOSTER. Who would know about that?

Mr. DENMAN. You can get a copy of the Skinner and Eddy contract.

Mr. FOSTER. We have had that, but who would know of the conditions existing at the time that the contract was made, and who could explain why it contained a different provision from any other contract on the Pacific coast, which provision was that the United States district auditor had no right to look at the books until he got authority from the office in Philadelphia. Where might this committee, in your judgment, go to find the situation existing, if any there was, to warrant that kind of contract standing out by itself.

Mr. DENMAN. If Admiral Capps signed that contract he could tell you who the person was who was responsible for drawing it up. If it was Admiral Bowles, he could tell you. Those were the two men in succession in charge of shipbuilding after Gen. Goethals left.

Mr. FOSTER. You would not know anybody else other than these two men?

Mr. DENMAN. Those were the men who were responsible.

Mr. FOSTER. Was any contract made with Skinner and Eddy while you were chairman of the board?

Mr. DENMAN. I say my impression is that it was after my time. I do not recall signing any Skinner and Eddy contract.

Mr. FOSTER. That is all, Mr. Chairman.

The CHAIRMAN. Any questions, Mr. Connally?

Mr. CONNALLY. I want to ask Mr. Denman one or two questions. Mr. Denman, this controversy that arose between you and Gen.

Goethals resulted in the resignation of both of you at the same time, did it not?

Mr. DENMAN. I do not know whether it was the controversy or not. The President has never indicated to me whether it was the controversy with Gen. Goethals or what it was.

Mr. CONNALLY. Well, both of you resigned simultaneously?

Mr. DENMAN. Yes, sir; simultaneously.

Mr. CONNALLY. My object, though I can not follow it up, because you probably would not know, or what I was wondering was as to why there was no decision made between you?

Mr. DENMAN. Because there was really nothing to decide.

Mr. CONNALLY. Very well. You spoke about Mr. Stevens being the political member of the board. How long was Mr. Stevens on the board?

Mr. DENMAN. Mr. Stevens retired from the board just prior to his candidacy for the Senate in the State of New Hampshire in this last campaign. He was on the board from about the 18th of March, 1917. When I spoke of him being the political member of the Board—and I want again to be understood as not treating that as a term of derogation—I mean I had not what is known as political sense. Mr. Stevens was a very valuable man in many ways. Despite his attitude on the Cunard ships he was sent to England as the Shipping Board's representative there.

Mr. CONNALLY. Did you mean by the term "the political member" that he was not a practical shipping man? That is really what you meant, wasn't it?

Mr. DENMAN. I think more than that. He had a certain kind of political sagacity. For instance, he wanted us to keep ourselves secure with the White House in the Bolling appointment; and he wanted us to ride with the English at the time it was unpopular to disagree with them. He was a man who sensed the general prevailing political conditions.

Mr. CONNALLY. You spoke in your testimony of the mess that had resulted from lack of a proper accounting system. What, if anything, was done during your administration with reference to outlining a general plan of keeping the expenditures, the disbursements, both of the Shipping Board and the Emergency Fleet Corporation, in a systematic manner? Was anything done? Who was in charge, and who was supposed to direct those things?

Mr. DENMAN. That was a matter of board policy. You will recall, Mr. Congressman, that the power to do this was not allocated to us until the 11th of July, 1917.

Mr. CONNALLY. The power to do what?

Mr. DENMAN. To allocate the functions of shipbuilding and shipping operations to anybody. On the 15th of June, 1917, the Congress passed the war ship bill. The form of that bill gave to the President all the powers, and it was for him to allocate those powers amongst such agencies as he chose. Now, on the 11th of July he made the decision between operations and shipbuilding, and when I sat down with Mr. Hurley I called his attention to the division, and told him that in our opinion he should create a new corporation so that he might have in one corporation the operation of ships and in another the manufacture of ships.

Mr. CONNALLY. Well, I know, but what were you doing about your accounting while you were in there? You were spending money, and did you have any comprehensive plan of accounting, either in shipbuilding or in operation?

Mr. DENHAM. We had a complete system of accounting at the time. We were getting no money, you know, for operations. We were operating in this way: We repaired these German ships and turned them over to the different allies, who operated them on a compensation to be later fixed. I was yesterday asked the date when we started that activity in New York. It was on April 6, 1917, the day that we entered the war.

Mr. CONNALLY. I believe that is all, Mr. Chairman.

Mr. KELLEY. Following along that same line, Mr. Denman: During the early part of your administration large sums of money were advanced to the various shipbuilding companies, and great quantities of material were provided for ships. Do you recall whether there was at that time a proper system of keeping track of the material that went into various yards—or would that go to Gen. Goethals?

Mr. DENMAN. I knew nothing about that. I imagine that none of those new yards had gotten to the point where materials had been assembled in any large quantities. But that is a mere question of hazard.

Mr. KELLEY. That would have been a good time to have inaugurated your system—before you got a large part of your material.

Mr. DENMAN. Oh, I have no doubt Gen. Goethals would have had it organized as well as he did on the canal if he had continued; but you will remember we were only going 12 days under the authority. Prior to that time he was trying to stimulate shipping men to get the work started at all.

Mr. KELLEY. You mean that you only had 12 days of actual service when you could pay out money?

Mr. DENMAN. No; we paid out money without authority.

Mr. KELLEY. I know; but that is something, of course, you expected would be ratified?

Mr. DENMAN. Oh, yes.

Mr. KELLEY. Who was the first comptroller of the Shipping Board and of the Fleet Corporation?

Mr. DENMAN. Mr. Soleau.

Mr. KELLEY. This was, of course, destined to be a very large project, this shipbuilding business. You knew when you started in it was going to be an enormous corporation in volume of business and in money handled. What qualifications did Mr. Soleau have for the handling of the books, keeping track of these funds, and keeping track of the materials which were to be assigned to those various companies?

Mr. DENMAN. Mr. Soleau was the auditor for the Shipping Board—

Mr. KELLEY (interposing). I know, but what qualifications had he?

Mr. DENMAN (continuing). And Mr. Olla was, as I recall, the auditor for the Emergency Fleet Corporation. He was chosen by Gen. Goethals, and I am not aware what prior experience he had.

Mr. KELLEY. Mr. Denman, it would seem as though the Treasury Department could have set up a system of books for you which would have been in harmony with the other systems of bookkeeping of the Government, and if that had been done you could have kept out of

the trouble that we got into. Why wasn't the Treasury Department called into that matter?

Mr. DENMAN. I do not know what Gen. Goethals did about that.

Mr. KELLEY. Wasn't the comptroller in fact the joint comptroller of the Shipping Board and of the Emergency Fleet Corporation.

Mr. DENMAN. My recollection is that the entire question of manufacture and manufacturing accounts was under Gen. Goethals and that Mr. Soleau had charge of Shipping Board funds.

Mr. KELLEY. But I understood you to say that the Shipping Board made the appointments, even down as low as the place of stenographer.

Mr. DENMAN. No; you misunderstood me. They made appointments for Shipping Board activities which were policy and operation. Gen. Goethals made all the appointments on the manufacturing end, and that was provided in one of the by-laws of the Emergency Fleet Corporation on April 18, 1917.

Mr. KELLEY. To cut it short, if there was none or an improper method established in the matter of accounting and keeping track of the supplies of the Government, that responsibility falls on Gen. Goethals and not on you?

Mr. DENMAN. That is correct; but it must be remembered that Gen. Goethals did not have the perfecting of his system; that he was striving during all that time he was there to stimulate production.

Mr. KELLEY. I know, Mr. Denman, but the testimony before this committee has been that in some cases the board did not even know where the funds were; did not know how much they were; and the system was so faulty that the board did not even have knowledge of where the moneys were deposited nor in what amounts.

Mr. DENMAN. Nothing of that kind existed during Gen. Goethals' time, because we had not gone far enough.

Mr. KELLEY. You had funds?

Mr. DENMAN. We had funds, and I will wager this, which is a mere wager or hazard, that every fund could have been located.

Mr. KELLEY. You took over in your time the ships that were being built on private account?

Mr. DENMAN. No; that was after I left.

Mr. KELLEY. There was no commandeering of ships in your time?

Mr. DENMAN. No. As I say, in the last meeting we had up the question of a list of contracts of private persons then in existence and the vessels being constructed and to be constructed, which had not been completely compiled, and we requested at this last meeting a complete compilation thereof. That was necessary for a perfection of the policy of commandeering.

Mr. KELLEY. That would fall to Gen. Goethals also?

Mr. DENMAN. Yes, sir.

Mr. KELLEY. And the policy of commandeering and the keeping track of commandeered materials?

Mr. DENMAN. There are two questions involved there: (1) The commandeering policy, involving, as it did, the vessels of foreign owners, which would be done by the Shipping Board in conjunction with Gen. Goethals; and (2) keeping track of materials, contracts, contract obligations, which would fall to Gen. Goethals.

Mr. KELLEY. Then if it did appear that the Government commandeered material of these various yards belonging to private enterprise,

and made at the time no inventory of that material, so that it was almost impossible to settle later on, the fault for that would be with Gen. Goethals?

Mr. DENMAN. Why, no, Gen. Goethals would have had abundant time in the next 60 days or three months, if he had remained, to have made a list of the material, and to have——

Mr. KELLEY. (interposing) How could he do that when he was sending new material in there all the time to finish ships?

Mr. DENMAN. The amount of new material that was going in on the commandeered ships at this period would not have been of any considerable quantity, because we had not commandeered. The commandeering of ships came about two or three months afterwards.

Mr. KELLEY. Then, Gen. Goethals's successor would be responsible for anything of the sort I have indicated?

Mr. DENMAN. Yes; it had not come up. Commandeering did not come in my time. We could not commandeer until we got the order from the President, and the order did not come until July 11.

Mr. KELLEY. Who was Gen. Goethals's immediate successor?

Mr. DENMAN. Admiral Capps.

Mr. KELLEY. But he did not stay long?

Mr. DENMAN. No; Admiral Capps was sick.

Mr. KELLEY. Then who followed him?

Mr. DENMAN. Admiral Bowles.

Mr. KELLEY. Did he stay very long?

Mr. DENMAN. I think he stayed until Mr. Schwab came in the following April.

Mr. KELLEY. Where was Mr. Piez; where did he come in?

Mr. DENMAN. Now, I can not give you that.

Mr. KELLEY. Well, that is a matter of record.

Mr. DENMAN. Yes. I can not give you the successions of authority there. I think Mr. Piez was under Admiral Bowles at the start and afterwards succeeded him, but I do not recall definitely now. As a matter of fact, I was trying to pull my law practice together in California at that time, and my recollection of Shipping Board affairs as of that time is not entirely clear.

Mr. KELLEY. Then, any defects growing out of improper accounting arose after your time?

Mr. DENMAN. Yes, I think a very large part is traceable to failure to make segregations such as the orders contemplated, and that, to a business man, would seem obvious. In my own business to-day I would no more have a blending of accounts of that character than I would think of keeping no accounts at all. My own cost sheets run out to the fourth decimal.

Mr. KELLEY. Do you recall what the qualifications of Mr. Soleau were, and what experience he had in this kind of work?

Mr. DENMAN. Yes; he had been in the government departments for years as an auditor.

Mr. KELLEY. Wouldn't it strike you that such a project of such immense size would require the best accounting talent in the country to organize a system of books?

Mr. DENMAN. Mr. Soleau was on the Shipping Board side and not on the Emergency Fleet side.

Mr. KELLEY. I don't care which side he was on if we could only have a proper set of books on either side or on both sides, so as to tell where the material would go and to keep track of it.

Mr. DENMAN. Mr. Soleau, Mr. Congressman, had nothing to do, as I recall it, with the question of materials. But Mr. Soleau had for years been with the Treasury Department and understood treasury methods. I had no difficulty in obtaining money from the treasury or in satisfying the treasury requirements during the time I was chairman of the board.

Mr. KELLEY. Well, but of course you understand now there are some \$1,500,000,000 of accounts that the Treasury Department refuses to pay.

Mr. DENMAN. I understand there is a dispute——

Mr. KELLEY (continuing). Because of faulty accounting.

Mr. DENMAN. Yes; I understand there is a dispute as to whether or not the ordinary business method of auditing bills before paying them, or the Government method of auditing after payments, should have prevailed. I am not in a position to solve that dispute; and, as a matter of fact, I am not familiar with Government accounting.

Mr. KELLEY. Who fixed the duties of the treasurer? He must have had considerable to do even in your day.

Mr. DENMAN. I do not recall how the treasurer's duties were fixed. My impression is that the auditor was the chief adviser to the treasurer in the matter of methods of acquisition and disbursement of funds.

Mr. KELLEY. The treasurer was under the control of the comptroller?

Mr. DENMAN. Are you referring to the comptroller of the Shipping Board?

Mr. KELLEY. I understand that the comptroller of the Shipping Board and of the Emergency Fleet Corporation were one and the same person.

Mr. DENMAN. Well, we had no comptroller in that sense in my time at all.

Mr. KELLEY. How was that?

Mr. DENMAN. I say, we had no comptroller in that sense in my time at all. I think you will find that during the period immediately succeeding me these matters were finally worked out. We were just in the process of establishing a system.

Mr. KELLEY. They were not worked out. What I am getting at is this, Who fixed the duties of the treasurer, who determined what his powers should be; the board or Gen. Goethals or yourself or who?

Mr. DENMAN. The treasurer of the Emergency Fleet Corporation, which had the construction of ships, was under the control of Gen. Goethals.

Mr. KELLEY. There never was but one treasurer, was there, of the two organizations? I mean, there was one office. You did not have a treasurer of the Shipping Board and a treasurer of the Fleet Corporation, too, did you?

Mr. DENMAN. I can not recall whether the two functions were performed by one man or not. My impression is that they were. I can get the data on that for you.

Mr. KELLEY. Do you remember who the treasurer was?

Mr. DENMAN. I think it was Mr. Stevens.

Mr. KELLEY. A member of the board?

Mr. DENMAN. He was also a member of the directorate of the Emergency Fleet Corporation.

Mr. KELLEY. Wasn't Mr. Smith the treasurer?

Mr. DENMAN. You will have to let me refresh my memory on that.

Mr. KELLEY. How could it happen, even back as far as your day, that collateral securities of various kinds, put up for the safe performance of contracts, could be lost track of, so that nobody would know where they were or what they were?

Mr. DENMAN. I presume on account of defective recordation.

Mr. KELLEY. What was that answer?

Mr. DENMAN. I presume owing to defective recordation.

Mr. KELLEY. Of course I realize that you were going along under a full head of steam, and had a great many things to think of, and probably the organization inception was the last thing you thought of.

Mr. DENMAN. Well, I do not think so.

Mr. KELLEY. What I meant to say is, that the machinery for carrying on the work was delayed.

Mr. DENMAN. The machinery was developed as we went along. As I say, the great expansion was not on my branch, because I had no ships then to operate. It was on Gen. Goethals's branch. But it was growing by leaps and bounds. The contracts were piling up and the business was expanding at a terrific rate, beyond, I think, the capacity of any organizing genius to carry on without friction. Take the Standard Oil Co. itself and ask it to-morrow to quadruple, and then again quadruple its activities, and get its staff of agents, subauditors, and its superintendents, and get railroad men and its pipemen; ask them to do that in six weeks or two months, and I will guarantee that their conditions to the outsider's eye would somewhat parallel ours. It would be better, however, as the Standard Oil is very efficient.

Mr. KELLEY. The Navy Department expanded from 50,000 or 60,000 to 500,000 men, and I never heard of any trouble with their bookkeeping although there was a great expanding of accounts.

Mr. DENMAN. They had a going concern. They were familiar with all these transactions and simply took the young men and expanded out.

Mr. KELLEY. Could not the Shipping Board have perfected its organization --

Mr. DENMAN (interposing). It was perfecting it.

Mr. KELLEY. (continuing). In order to keep track of funds and securities? The testimony before this committee is that bundles of securities were around in the hands of different persons and no record of where they were.

Mr. DENMAN. I have not any excuse to offer for that, but I am not familiar with the situation you mention. Of course if that occurred it should not have been done.

Mr. STEELE. Is that an exactly correct statement?

Mr. KELLEY. There is testimony that there were securities in the Girard Trust Co. and the Shipping Board did not know where they were; that they were there, and when they got them back they did not know whether they were all there or not.

Mr. DENMAN. That was not true during my time. I remember that the only security I took was for an advance to a corporation furnishing timbers, which security consisted of a ship, and a mortgage was drawn very carefully, and there was not any question about its place of location.

Mr. KELLEY. When you took over the Austrian ships what did you do with them?

Mr. DENMAN. Repaired them.

Mr. KELLEY. Who repaired them?

Mr. DENMAN. I can not give you a list of the repair yards.

Mr. KELLEY. I do not mean that, but did you repair them or did the Navy repair them?

Mr. DENMAN. We repaired some and the Navy repaired some. Mr. Yates and this committee, established on the first morning of the war, had to do with that.

Mr. KELLEY. I am not particular about that. Then what did you do with them after they were put in repair?

Mr. DENMAN. That was not solved until after I left the Board, because of the repairs——

Mr. KELLEY (interposing). You mean that the Government had these ships?

Mr. DENMAN. The repairs were not completed, except I think as to one or two and possibly three that were handed right over to the shipping organizations of our allies for the carriage of munitions. They had to leave here immediately. They were manned by us and turned right into their fleets until we got our power from the Congress. The idea was to have a general ship control committee of our own.

Mr. KELLEY. Did you ever hear any complaints that those ships were turned over to parties who were allowed to operate them, at a profit for three round trips?

Mr. DENMAN. That is another group of ships entirely.

Mr. KELLEY. That is another group of ships?

Mr. DENMAN. Yes, sir. I know something about that. There was a large group of Austrian ships, eight of them, seven or eight, purchased by Mr. Baruch and myself, with the Presidential money. Those were never allowed any free trips. Then there was a second group, with the Kerr and Clegg interests, the ramifications of which I did not understand, and I understand the Government is having some difficulty in unraveling. I was called on by Mr.—I have forgotten his name, but he was a big husky chap, and I understand an Englishman—on behalf of Kerr and Clegg, just before I left the Shipping Board, and he asked me whether or not we were going to buy those ships. Now, it was before we got the powers from the President.

At that time it was apparent that we were going to commandeer everything. We had the commandeering powers given by the Congress, and I told him no, that as far as I was concerned that was the situation, but that I did not know what the board's action would be; that if the question came to us I did not know what the board's action would be, but that as far as I was concerned we were not going to buy those ships, but would get them in this general commandeering program, and thereby get control of them.

I have seen the minutes of the board of October, 1917, in which free trips—well, I have forgotten whether it is a minute or a letter—free trips were promised to Kerr and Clegg, or to somebody owning that group of ships. And the reason I was interested in it was that the *George Washington*, the motor ship, could have been brought under the American flag early in August, 1917, if some arrangement for free trips had been given to them. You see she

was free, outside, and if they could have been allowed a certain number of free trips under the American flag Olsen would have been willing to put her under. I wondered whether the free trip idea had killed the bringing in of the *George Washington*, and discovered that free trips had been guaranteed to other vessels subsequently.

Mr. KELLEY. At this particular time of course freight rates were very high, in October, 1917.

Mr. DENMAN. It was estimated that a wooden ship of the type that we proposed to build and that were built would pay for itself in two trips across the Atlantic.

Mr. KELLEY. And if those parties, Kerr and Clegg, were given three round trips free, so that they could charge the going freight rates, it is your opinion that they would make enough profit on those three trips to pay for the ships?

Mr. DENMAN. That is my opinion; yes.

Mr. KELLEY. And that practice was not accorded to you or to others I mean, in your time?

Mr. DENMAN. Never in my time. I certainly would have given no free trips to the Austrian ships we were going to commandeer. But I would have brought in other ships, of the Danes, and Swedes, and Norwegians and any others I could have brought in to get them under the flag, by giving free trips, because they had the advantage of free trips anyway.

Mr. KELLEY. In your statement that you offered for the record on yesterday, and that I presume went into the record, in speaking of the Diesel engine contract you used this language:

Its rejection—

I suppose that means the rejection of the Diesel engine program.

Mr. DENMAN. Yes, sir.

Mr. KELLEY. And you continued:

was the climax of the tragedy of blunders of the Hurley administration.

What were some of the other blunders of which this was the climax?

Mr. DENMAN. There is a phrase in English literature, "Oh that mine enemy would write a book."

That sentence in my statement was used in connection with the next, in which I paid a tribute to Mr. Hurley's accomplishments. I do not want to be put in the position of unbalanced criticism. Besides, looking-backward criticism is very easy. The criticisms I have made of the succeeding administration were looking-forward criticisms, based upon the failure to adopt the programs and policies that I had advocated. Now, I think there was a series of extraordinarily unhappy mistakes made.

Mr. KELLEY. That is what we want to hear about.

Mr. DENMAN. At the time they were performing extraordinarily valuable public service, and I do not want to be one-sided in what I am saying. The first mistake was a mistake in not building some Diesels at these many plants.

Mr. KELLEY. That was the climax of the mistakes, and we want the others now.

Mr. DENMAN. I think the great next error was in failing to put the entire responsibility and entire control for building ships on the general manager of the corporation as director general, in the way

that we expected to do it with Gen. Goethals, once the type and policy were determined on; in the way we did it with Gen. Goethals in all other matters. I think the chairman of the Shipping Board should have confined himself to operations, and that the director general of the corporation should have had the manufacture of ships.

I think that if Mr. Hurley and his associates, instead of visiting the shipyards to do this stimulation work with labor that Mr. Schwab was so admirably suited to perform, had been studying the problem of management of ships and types of ships for the war emergency and for the competition after the war, that an enormous quantity of waste motion would have been avoided. If Mr. Schwab had not been peculiarly suited to arouse public sentiment, Mr. Hurley's gifts in that direction would have been required on the ship stimulating end, but there was enough of that in Mr. Schwab, who understood publicity well enough and had the kind of personality to give the inflation that was needed on that side. And Mr. Hurley's extraordinary driving energy could have been put on the shipping problem, the type question, and the organization of the management of these tremendous agencies on the operating side. I think they should have learned from the comment that was made on the so-called Goethals-Denman disputes, that the thing to do was to separate the two divisions of the work and let Admiral Capps or Admiral Bowles or Mr. Schwab, or whoever was going to have that particular function, let that man have the responsibility for the manufacture of ships; and the other man have the responsibility for the problem of management in operations, which was just as great and just as important a work and now is far more important.

Mr. KELLEY. Both you and Gen. Goethals agreed on that policy, didn't you; that he should manufacture the ships and build the yards, and that you should operate the ships?

Mr. DENMAN. That was agreed; yes.

Mr. KELLEY. But that policy was not pursued after you and Gen. Goethals left the board?

Mr. DENMAN. There was an intermingling of the energies of the different administrators, of the chief administrators, Mr. Hurley particularly, on the operating end with actual manufacture of vessels.

Mr. KELLEY. Now, during Mr. Hurley's time as chairman of the board, Mr. Piez held the place that Gen. Goethals had under your time, didn't he?

Mr. DENMAN. I think he did, for a while.

Mr. KELLEY. Didn't they preserve this idea, of one looking after the operating of ships and the other the building of ships; or did Mr. Hurley interfere to the disadvantage of the Government with Mr. Piez? I am just trying to get your opinion, that is, of what happened.

Mr. DENMAN. A great deal of Mr. Hurley's time was spent at the yards—I am judging now from the continued reports in the press of his presence there—stimulating the workers and giving journalistic publicity to the manufacturing scheme.

Mr. KELLEY. So that very little if any, of the attention of persons of prominence on the board, was centered on operations?

Mr. DENMAN. How much that was, I do not know. But the failure to have any auditing system on the great numbers of agencies established arose during this period.

Mr. KELLEY. What fault have you to find with the operation of ships at the present time?

Mr. DENMAN. That of determination of a policy for operation and sale.

Mr. KELLEY. I know, but I mean actual operation and handling of these 1,400 ships at the present time, which matter is in the hands of Capt. Foley or somebody else at the head of the Division of Operations under the Shipping Board. Is it managed all right now?

Mr. DENMAN. Can you tell me whether or not Capt. Foley is a commercial shipping man?

Mr. KELLEY. I do not think he is. I think he is a naval officer.

Mr. DENMAN. I am opposed at all times to giving to highly technical trained men of the Army and the Navy control of the vital living business organizations.

Mr. KELLEY. I know in theory, but I am not talking about the theoretical situation; I am talking about the actual situation. What fault have you to find so far as you know of the management of these 1,400 ships at the present time?

Mr. DENMAN. I would not want to find any fault without more information than I possess. Those other faults were obvious.

Mr. KELLEY. Why isn't it all right now?

Mr. DENMAN. I would not want to find any fault with the workers for a board which has not formulated a definite policy for the management or disposition of those ships.

Mr. KELLEY. Let me make myself clear. Your statement was that one of the glaring faults of Mr. Hurley's administration was that he did not devote himself to the operations and have somebody else at the head of the Fleet Corporation devoting himself to construction. I assumed from that statement that there was something radically wrong with their operation, because you enumerated that as a blunder.

Mr. DENMAN. That is correct.

Mr. KELLEY. What is wrong with operations?

Mr. DENMAN. I was referring to Mr. Hurley's time.

Mr. KELLEY. You are a shipping man.

Mr. DENMAN. I was referring to conditions as they existed during Mr. Hurley's administration; to the segregation that I understand today exists.

Mr. KELLEY. What is wrong with the Government management of ships to-day? Isn't the Government getting one hundred cents' worth of service from every dollar that it puts into them to-day?

Mr. DENMAN. I do not know. I am not in charge.

Mr. KELLEY. Why do you say some other system would be a better system if this system is all right?

Mr. DENMAN. In quoting me I do not think you quote clearly my position. We are shifting the ground from the suggestions I think I made.

Mr. KELLEY. I am not shifting the ground. I am making my question as clear as I know how to make it. What is wrong with the management of ships as they are now operated?

Mr. DENMAN. I have not said it was wrong.

Mr. KELLEY. You said, if I understood you correctly, that one of the great blunders of the Hurley administration related to the operation of ships; that he did not give his attention to them. I assumed from what you said that you meant there was some shortcoming in the management of the department.

Mr. DENMAN. Mr. Hurley has not been there for a long time.

Mr. KELLEY. But his policy goes on, the one that he instituted?

Mr. DENMAN. I think you would find that his successors would say that is not so, but I am not competent to answer for them.

Mr. KELLEY. Do you want to give any information, or rather opinion I mean, as to the efficiency of these ships at the present time or under Mr. Hurley?

Mr. DENMAN. Under Mr. Hurley's time there were many, how many I can not give you but a very large number, of agents of the Government operating ships. They were collecting freights running into the millions and hundreds of millions of dollars. There was no system of business management of those agents. When Mr. Rosseter came here, his energies which should have been devoted to type and to grabbing commerce from our opponents, were spent in trying to straighten out the management of those agencies. I think that was an unhappy occurrence.

Mr. KELLEY. Well, is it your criticism that too many new operators were given ships?

Mr. DENMAN. No; I would not make that criticism, because to make that one should know by an intimate study, which I can not give and have not given, what the entire group was. One of the great difficulties, one of the great drawbacks of America in international commerce, is the few personalities that understand international trade and carriage in ships. I want to develop that if I may: We are very far behind the Norwegians and the Swedes and the Danes and the Hollanders and Great Britain, particularly, in ship brains. You may have all the ships in the world, and all the superiority of type in the world, but if you do not have ship brains you can not make money. It is the shipping man who makes the shipping business. We have not enough of them in the United States. And if from these new agencies that were created during Mr. Hurley's time there has been an increment of 50 per cent of brain power, in men understanding international commerce and the management of ships on the sea, that asset is worth as much as the ships that were built.

Mr. KELLEY. Your criticism is that Mr. Hurley at least did not devote himself to the study of shipping problems as an operator, which he should have done?

Mr. DENMAN. He should have devoted more study to operation and less to the stimulating side of work in the yards.

Mr. KELLEY. Are you familiar with the operating contracts which have been entered into by the Government from time to time, especially during Mr. Hurley's time?

Mr. DENMAN. No; I am not. They have been altered from time to time, and I am not an attorney for any agent of the Shipping Board, barring one, a steel shipbuilding yard in California. And they are shipbuilders and not ship operators.

Mr. KELLEY. Are there any other operating defects that might have been avoided by more attention to the operating side?

Mr. DENMAN. Yes; if they had compared the operation of Danish Diesel ships with their operation of steam vessels I would not be here talking to you about Diesels.

Mr. KELLEY. The Diesel ships are very expensive to operate, aren't they?

Mr. DENMAN. They operate at one-third the fuel cost of steam vessels.

Mr. KELLEY. The upkeep is very high, isn't it?

Mr. DENMAN. No; it is much less, or at least not more than in the case of steam vessels.

Mr. KELLEY. What about the initial cost of Diesels?

Mr. DENMAN. When you take the cargo-carrying capacity of a ship into consideration it is about the same per ton carriage; per ton actually carried it is about the same. That is the real question. If by paying a little more for your engines you do not have to push so much fuel around and you carry more cargo, that is the test. It is volume of cargo-carrying capacity or ton-mile per annum that determines the value of the results.

Mr. KELLEY. What other blunders of the Hurley administration have you in mind?

Mr. DENMAN. The blending of accounts.

Mr. KELLEY. What do you mean by that?

Mr. DENMAN. The mixing of operations with manufacture.

Mr. KELLEY. So that it is impossible now to tell from the books what the cost of operation was or what the cost of manufacture was?

Mr. DENMAN. No man could use the word "impossible" until he had been over the books.

Mr. KELLEY. I said from the books.

Mr. DENMAN. Well, I do not know that it is impossible because I have never seen the books.

Mr. KELLEY. Well, what harm had come from the mixing of funds?

Mr. DENMAN. The difficulty of determining what the vessels cost to build and what they cost to operate.

Mr. KELLEY. So that it is very difficult to tell about them now.

Mr. DENMAN. So that when you gentlemen very properly ask what did this fleet of 1,700 vessels cost, you can not get an answer. Then when you turn and ask, what does it cost to operate them, you still can not get an answer. It is now two years since the armistice.

Mr. KELLEY. And it is very difficult to determine, by reason of the commingling of funds of these two operations, what any ship cost for construction or whether or not it is making any money from operation.

Mr. DENMAN. It is difficult; yes, sir.

Mr. KELLEY. What other blunders were there?

Mr. DENMAN. I am exhausted.

Mr. KELLEY. Well, just one other sentence and I think we will have to go over to the House pretty soon—that attracted my attention a good deal. In the same paragraph, Mr. Denman, you say:

Unconsciously he has contributed more to the success of our Scandinavian and British competitors on the seas than the most ardent of our few Anglo-un-American administrators during the war.

Do you mean by that statement that there were connected with the Shipping Board or Fleet Corporation at any time a few Anglo-un-American administrators?

Mr. DENMAN. That was the obvious import of what I said. I trust that you do not ask me for the list. I have been crucified so often for this lack of political sense to which I have referred, and for the advocacy to the public of my opinions, that, as I said the other day, you can slip the spikes into my palms without the use of a ham.

mer. The fact is that there was a hysteria that went over Washington that possessed men to desire to give to bleeding England anything she wanted.

Mr. KELLEY. Well, of course, there was more or less propaganda on both sides of that question.

Mr. DENMAN. I had experienced the propaganda.

Mr. KELLEY. I thought that was rather a serious allegation there, that there were un-American administrators, a few, connected with the Shipping Board. Of course, I will respect your wishes as to identities, but it caught my attention.

Mr. DENMAN. I will tell you my own experience as to what happened while I was on the board. But it will take some time.

The CHAIRMAN. Well, we have got to attend the call of the House, Mr. Denman. The committee will now adjourn until 9.45 o'clock to-morrow morning.

(Thereupon, at 12 o'clock and 20 minutes p. m., the committee adjourned until to-morrow, Wednesday, December 15, 1920, at 9.45 a. m.)

SELECT COMMITTEE ON
UNITED STATES SHIPPING BOARD OPERATIONS,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Wednesday, December 15, 1920.

The committee met at 9.45 o'clock a. m., pursuant to adjournment on yesterday, Hon. Joseph Walsh (chairman) presiding.

Also present: Representatives Kelley, Hadley, Foster, Steele, and Connally, the other members of the committee.

TESTIMONY OF MR. WILLIAM DENMAN—Resumed.

Mr. DENMAN. Mr. Chairman, I trust you will pardon my delay this morning, but Mr. Kelley asked me on yesterday for certain information in reference to organization and disbursements of funds, and I was unable until this morning to get hold of my secretary, Mr. James, who has been quite ill, and get from him the outline of the original scheme of the organization that we had in detail.

In answer to the inquiry of yesterday by Mr. Kelley, I think I can give you a picture of the distribution of functions before we had our legislation from the Congress. They then followed the same plan which was afterward outlined in the executive order from the President that I drafted for him in June.

Under the act of September, 1916, fourth section, it is provided that the accounts of the Shipping Board should be audited by the Auditor for the State Department and auditors for other departments, and Mr. Soleau, whom I spoke of as the auditor, was the person in the Shipping Board connected with auditing; he was the disbursing officer and acted in cooperation with the auditor for these departments under the statute. Later, when the Emergency Fleet Corporation was formed a real auditor, as distinguished from Mr. Soleau, the disbursing officer, was employed by Gen. Goethals. I have forgotten his name for the moment—

Mr. KELLEY (interposing). Was it Mr. Bender?

Mr. DENMAN. Yes; Mr. Bender. And there was no statute controlling the functions of Mr. Bender. He was just the auditor, as any corporation would have its auditor for the purpose of auditing the corporation's accounts.

When we started repairing the German and Austrian ships in New York—and you will recall that my organization in New York for repairing and operating those ships was initiated on the day we entered into the war, April 6, 1917, and there as in other cases we moved rapidly—the funds that we used in that connection were funds that came from the President himself, and were administered and disbursed by the Shipping Board as distinguished from the corporation later formed; and those funds were handled by Mr. Soleau on the Shipping Board side throughout the time of my administration. I have not examined the records on that, but my recollection is refreshed and I am pretty clear there. The \$50,000,000 that we received under your congressional grant by the act of September, 1916, were used to purchase stock of the Emergency Fleet Corporation, and were disbursed by Mr. Soleau, disbursing officer of the Shipping Board, to the Fleet Corporation, where those funds came under the control of Auditor Bender.

Now, the system that was established by Gen. Goethals in the Emergency Fleet Corporation was, as I understood it, an ordinary business audit. I did not concern myself with that. Later, I think in the month of July, 1918, as a part, I think, of the emergency deficiency bill for the disposition of funds for the year 1919, there was a provision that the funds of the Emergency Fleet Corporation, being that fund appropriated for 1919, were to be administered under the regulations of the Secretary of the Treasury.

I think that answers the question that you put to me. Now, you asked me who was the treasurer of the Shipping Board.

Mr. KELLEY. Yes; who was the treasurer?

Mr. DENMAN. There was no treasurer of the Shipping Board, but there was a treasurer of the Emergency Fleet Corporation, and that was Mr. Stevens. Who succeeded him or whether there was a succession between Mr. Stevens and Mr. Bolling, I do not recall. I have not had time to go into the records on that for you. But that may be very easily shown by inquiry at the Shipping Board.

Mr. KELLEY. In arranging the duties of the treasurer, did you create an independent office or was it a sort of adjunct to the comptroller's office, or don't you recall?

Mr. DENMAN. By comptroller, do you mean Mr. Bender?

Mr. KELLEY. Well, whoever had charge of accounts.

Mr. DENMAN. My recollection is that the treasurer's duties were outlined in the by-laws of the Emergency Fleet Corporation, and I have not seen those recently. But the point I want to make there is that we, in the beginning made this separation of repair and operation of ships by the Shipping Board and the manufacture of ships by the Emergency Fleet Corporation.

Mr. KELLEY. One of the serious criticisms, Mr. Denman, that has been made of the organization in its earlier days is, that the treasurer was given but very little, if any, power and that the comptroller or auditor—whatever you called him at that time—had no check upon his handling of funds; that the money was in his hands; that in the

checking of it out the treasurer merely signed the checks; that the securities—Government bonds and whatever else was put up as collateral for the faithful performance of contracts—was in the hands of one department there, with no check against it by any other; and that as a result a good deal of chaos has come about in the accounts.

Mr. DENMAN. Now, we must get clearly in mind the fact that what was administered in New York and elsewhere, under me as the chairman of the Shipping Board—that is to say, operations and repairs—was presidential money flowing through the board and not the corporation, and was disbursed by Mr. Soleau under the audit required by the statute, section 4 of the act. There was never any trouble there on my side of it. Now, when you get over on the corporation side of it, the original idea of the Emergency Fleet Corporation was to make it a private concern for the purpose of rapidity of operation in getting of contracts and getting started in the business. If the methods of auditing and the methods of handling moneys there did not fit into the Government's scheme of auditing that is a question of administration detail that came under Gen. Goethals. Gen. Goethals had had great freedom on the Canal; he had direct methods—they were not the methods of public business operations—the whole desire being to get to the point and get things done. I am giving you the principles controlling him. Now, what was done there I do not know.

Mr. KELLEY. Whatever system of checks on the powers of the auditor or comptroller that were put into effect were matters under Gen. Goethals under the arrangement that you had at the time as far as the Emergency Fleet Corporation was concerned?

Mr. DENMAN. That is correct.

Mr. KELLEY. And any shortcomings in that system are not to be laid at your door?

Mr. DENMAN. Not at my door; and I do not want to suggest that there are such things, because the difficulties that later arose I think arose before Gen. Goethals had thoroughly adjusted his system to the rapid expansion of the work.

Mr. KELLEY. Criticism has been made that on the great work that you had started out upon the first thing that should have been done was to engage an expert accountant, or a firm of accounts of the highest standing in the country, to open up a set of books which would be adequate for those transactions and that that was never done; and that those who were engaged were people of ordinary ability; that this enterprise was to develop into an institution twice as large as the United States Steel Corporation, and yet no adequate system of bookkeeping was started, and as a result of that confusion has ensued from that day to this, all traceable to the fact that it was not properly done in your time, either by you or by Gen. Goethals.

Mr. DENMAN. Well, I assumed that Gen. Goethals—who had built the largest enterprise in the world at that time, and who was my choice, for I was responsible for Gen. Goethals being there more than any other person—I assumed that as he had been the administrator of the largest enterprise in the world up to that time of a constructive character difficulties of this kind would be solved, either when he came in or in the process of his administration.

Mr. KELLEY. Your whole plan was the idea of segregating construction from operation, and that you were heading into the operating division and that Gen. Goethals was heading into the construction division.

Mr. DENMAN. That is correct; although I had to face the Congress on appropriations, and I agreed with Gen. Goethals that I would save him, as far as possible, from congressional contact. To do this I had to know something that was going on on the construction side, in order to meet the congressional committees. But so far as interfering with the system of manufacture, or organizing or assisting in organizing the actual work, that was not my function.

Mr. KELLEY. What special value was there to have you sign those contracts?

Mr. DENMAN. I do not believe there was any value in that at all, except that it made certain that I would be able to gather the necessary information. It could have been as well done by a summary of the contracts sent in to me.

Mr. KELLEY. But it put you in position to stop any particular transaction if you saw fit.

Mr. DENMAN. I do not think I had that in mind, or that any of us had that in mind. When those original by-laws were drawn they were drawn, as I recall it, by Mr. Joseph Cotton, who was under Gen. Goethals, and they came up to the board in that form.

Mr. KELLEY. In the question of making a contract with a new corporation, a new shipbuilding company, one which had no plant and where the Government had to put up the money to build it, do you recall whether there was any provision in those early contracts which would safeguard the Government against excessive salaries being paid by those new concerns, or whether or not mortgages were taken upon the plants which the Government's money had resulted in building?

Mr. DENMAN. No; that was a matter of administrative detail I was not concerned with.

Mr. KELLEY. That would be more than ordinary detail, wouldn't it?

Mr. DENMAN. That would have to vary with——

Mr. KELLEY (interposing). It seems to me that that would be a general policy that the chairman of the board ought to be familiar with—how to protect the Government against possible loss where large sums of money were put into the hands of inexperienced people in the shipbuilding business.

Mr. DENMAN. There is no question about the importance of that; there is no question about the necessity for safeguarding that situation.

Mr. KELLEY. But you do not know whether that was done?

Mr. DENMAN. That was not my function, sir. And as it was, the country was clamoring and the Congress was clamoring because of my alleged interference with Gen. Goethals's administration there. It was to be a canal job by him, a great big sizeable thing that would just move along with the titanic energy of that good gentleman, and other persons were not to interfere. That was the conception; and it was a conception to which the Congress and the country seemed to give its approval.

Mr. KELLEY. Then if contracts were made at that time without protection to the Government against the payment of excessive

salaries, and without protecting the Government's investment by taking a mortgage upon the plant that the Government really erected, that was not your fault?

Mr. DENMAN. That was not my fault.

Mr. KELLEY. That went to Gen. Goethals.

Mr. DENMAN. Gen. Goethals is the man, but if he had made a mistake with a contractor and it came to light as the business developed, he would have taken the contractor into his office and something would have happened to that contractor so that he would have had to correct the mistake. His was an extraordinarily powerful personality. And while my contact with Gen. Goethals until the session of the last day was one of the most amicable that I have ever known and ever had in business, yet I know that when he put his hand upon a contractor that he desired to shape the conduct of, he usually got the results he desired.

Mr. KELLEY. Are you familiar with the Pacific Coast Shipping Co. out in San Francisco?

Mr. DENMAN. I am not familiar with it, but the yard that I market our lumber through immediately adjoins that plant.

Mr. KELLEY. What is the name of that yard? I remember that yard up there.

Mr. DENMAN. The Coos Bay Lumber Co. In this connection I would like to say that we were speaking on yesterday of my connection with the lumber business, and I want to explain that I was not connected with the lumber business prior to joining the Shipping Board, except that I acted as counsel for one company in cleaning up certain land titles. This Coos Bay Lumber Co. made a contract for the furnishing of ship timbers at the time that I was on the board at a price considerably——

Mr. KELLEY (interposing). What you are saying has nothing especially to do with this inquiry, except to say that you were not connected with the lumber business at the time.

Mr. DENMAN. No; but I have since been operating a lumber business, which I am doing as receiver for the United States district courts in Oregon and California.

Mr. KELLEY. But that would not be a matter of any public interest, would it?

Mr. DENMAN. Unless you desire to know whether I am qualified to speak on the question of handling raw and manufactured materials in large quantities.

Mr. KELLEY. We will assume that you are qualified to speak on anything you think you are qualified to speak on.

Mr. DENMAN. You are very courteous.

Mr. KELLEY. Do you know Mr. Burgess?

Mr. DENMAN. Yes, sir; I have known him casually for a great many years. He is a promoter, and has promoted and promoted.

Mr. KELLEY. Did you sign that contract?

Mr. DENMAN. No; that came way after my time. I have seen that plant at work. I was by there about three weeks ago——

Mr. KELLEY (interposing). Is Mr. Burgess a man of sufficient shipbuilding ability that he ought to be paid \$25,000 a year salary?

Mr. DENMAN. I do not believe he has had any shipbuilding experience.

Mr. KELLEY. Do you know Mr. Scott, out there, connected with the same company?

Mr. DENMAN. I have met Mr. Scott casually. He is a shipbuilder.

Mr. KELLEY. He drew \$25,000.

Mr. DENMAN. He is worth it, I think, as salaries go for large executives.

Mr. KELLEY. This was not a large project, was it?

Mr. DENMAN. I have forgotten the amount involved; but a good many millions of dollars, I believe.

Mr. KELLEY. There were four or six ways.

Mr. DENMAN. That is a big project. It would not seem so in comparison with some other yards out there, but, of course, we produced more ships on the Pacific coast than they did on the Atlantic coast, as you will recall.

Mr. KELLEY. They did not produce many of them at this place.

Mr. DENMAN. No; those ships seemed to stay there at the place where they were put in with extraordinary permanence, although he has gotten out, I think, two or three ships.

Mr. KELLEY. What salary did you pay Mr. Radford at the time he was connected with the office down there?

Mr. DENMAN. He was under Gen. Goethals, if in our time. My impression is that he came in after my time, but, at any rate, he was under the Emergency Fleet, and that was under Gen. Goethals.

Mr. KELLEY. Did he get as much as \$15,000 a year?

Mr. DENMAN. I am certain he did not, but that, as well, is a statement made without looking at the books.

Mr. KELLEY. There seemed to be nothing to protect the Government against paying Mr. Burgess \$25,000, and Mr. Scott \$18,000, and Mr. Radford \$15,000, and a man by the name of Seagrave \$12,000 a year at that plant out there.

Mr. DENMAN. There would be no way by general provision in the Emergency Fleet Corporation of determining what the salaries should be on any individual enterprise. And you would have in each case to determine the situation. For instance, suppose now you had a community that had labor in it and where you wanted to put a shipbuilding plant in war time, and you had everything but a certain type of manager, and there was tremendous competition to get that type of fellow. You might have to pay a \$10,000 man \$25,000 to get him, and he might be the very key to the whole situation. You could not lay down a general rule to cover those things. It has got to be a determination on the average enterprise, if you do that, and they all vary and are not uniform. On the other hand, you could certainly lay down a rule that the salaries should be viséed and not be beyond a certain point for the enterprise that you are financing. That could be done, but there could be no way of starting out and saying, "We will pay nobody more than \$5,000 or \$50,000, or whatever your figure might be, for all the plants."

Mr. KELLEY. No; but shouldn't there be some provision in the contract which would require the O. K. of somebody at this end of the line as to salaries, especially if the parties out there had had no experience whatever in shipbuilding and were not putting any money to speak of in the project?

Mr. DENMAN. Well, I have already expressed my opinion as to intrusting Government functions to nonshipping and nonshipbuilding persons.

Mr. KELLEY. Whatever trouble there was about that it was a matter with Gen. Goethals anyway?

Mr. DENMAN. Gen. Goethals had nothing to do with this specific Pacific coast plant. Its contract came later.

Mr. KELLEY. It was on the other side of your organization?

Mr. DENMAN. Yes; it was on the Emergency Fleet side.

Mr. KELLEY. I suppose that in the case of these general contracts the methods of handling the business that were started in your day were probably continued along under your successors.

Mr. DENMAN. No; I think not. I think there were quite radical changes made after Gen. Goethals's time.

Mr. KELLEY. For the better?

Mr. DENMAN. The difficulty there is that these contracts were governed by the condition of the individual yard, and there were different enterprise conditions, and to say that one was better or that all were better is a question of examining the one and then examining all and then passing on them, which I have not had the time to do.

Mr. KELLEY. In your judgment should Mr. Burgess have had a contract for building ships for the Government?

Mr. DENMAN. No; I would confine Mr. Burgess to the operation of promoting land sales.

Mr. KELLEY. He was a real estate agent out there?

Mr. DENMAN. Yes; he was one of the few we have in northern California. We import them from the south.

Mr. KELLEY. Was his credit at the banks ample?

Mr. DENMAN. I couldn't tell you about that, but he must have had credit because he floated so many real estate schemes.

Mr. KELLEY. Do you know whether he put a mortgage on this plant that the Government built out there of several hundred thousand dollars?

Mr. DENMAN. I do not know. The reason I spoke of the Coos Bay Co. is that before the time I was receiver it owned the town of Bay Point, and the streets were laid and sewers were in the town and it was an admirable place to expand buildings for the laborers at the plant. Now, the Coos Bay people offered to go ahead and build at this town right alongside or near to the shipbuilding plant. But Mr. Burgess managed to get a town called Clyde——

Mr. KELLEY (interposing). Back in the country 12 miles?

Mr. DENMAN. About 2 or 2½ miles. There he built a beautiful village there that, as you look at it, either scars or adorns the landscape with an extraordinary variety of paints.

Mr. KELLEY. Who put up the money to build it?

Mr. DENMAN. I am sure that Mr. Burgess did not; quite likely the Government.

Mr. KELLEY. Quite likely the Government?

Mr. DENMAN. Well, I do not know.

Mr. STEELE. Does the witness know about these things?

Mr. KELLEY. If he doesn't I do.

Mr. STEELE. The witness is talking now about things that took place after he left the Shipping Board.

Mr. DENMAN. This is property that I am familiar with. And we take judicial notice of Mr. Burgess in California.

Mr. KELLEY. You do not know whether the money for the town built up in the country was put up by the Government or not?

Mr. DENMAN. No; it was only statements of Shipping Board administrators that led me to believe that. I want to thank Mr. Steele for his suggestion; I am not in a position to testify in regard to that.

Mr. KELLEY. Do you remember the hotel built at the beautiful little town of Clyde?

Mr. DENMAN. Yes. I was very much disappointed, as receiver of the lumber company, that that had not been built in Bay Point.

Mr. KELLEY. But it is too far back in the country to be of much use to you in Bay Point?

Mr. DENMAN. Yes.

Mr. KELLEY. You are interested in that locality and I want to ask you, on what theory would the Government build a town back so far away from the seaboard?

Mr. DENMAN. On the theory that mosquitoes were thicker in Bay Point than in Clyde. This was disputed by the leading citizens in Bay Point, but the argument as to the preponderance of mosquitoes seemed to be decided against that town. [The members of the committee smiled at this statement]. Gentlemen, I am speaking seriously of this. This is what happened. I know it though it was before I took charge of the Bay Point lands.

Mr. KELLEY. Did Mr. Burgess have an option on the land where Clyde was erected and not on the land down by the seaboard?

Mr. DENMAN. He did not have it on the land by the seaboard.

Mr. KELLEY. And you do not know whether he had it on the land where the town of Clyde was built or not?

Mr. DENMAN. I think that was a part of one of his promoting enterprises.

Mr. KELLEY. Perhaps that had something to do with the claim about mosquitoes.

Mr. DENMAN. That option was not an argument urged upon the Government.

Mr. KELLEY. One important statement you have made I think, from the standpoint of the public good, Mr. Denman, if you are correct about it, is that American shipping is handicapped, or has been, by interference of foreign interests in the handling of our ships and in the building of our ships, and that that interference is in the nature of officials connected with the Shipping Board who were subject to foreign control. I wondered if you could give the committee any further light on that proposition, because it is rather a serious one, and the country ought to know if there is anybody entrusted with the building up of our merchant marine who is controlled by foreign financial interests.

Mr. DENMAN. I can not tell you as to the present organization of the Shipping Board, I mean the organization of its employees. What I do know is that I had a great deal to do with Admiral Benson during the time that we were harmonizing the activities of the Navy and the Shipping Board. You need have no fear about Admiral Benson's true Americanism, and he is an admirable cooperator, and was during those early and very trying days. But I can give you an

incident of my administration which shows what can be accomplished. How it was accomplished I do not know to this day. In the month of April, after the arrival of the British commission, I was in the office of the Shipping Board here in Washington one day, up to the noon hour, and went out for a conference with some of those New York shipping advisers at luncheon, expecting to return about 4 o'clock. We then had this ship administrative board in New York, which had not begun to function on the operation of ships, because we had none, except, I think, possibly one German ship that had been repaired. We were very anxious to organize that committee on a purely American basis and not insert any British or other administrators until we had got it in satisfactory form to ourselves.

When I returned to the office of the Shipping Board, between half past 3 and 4 o'clock, the following had occurred: A meeting of the board had been held; three or four visiting members of the commission had been present at the meeting; a resolution had been passed making Mr. Connop Guthrie a member of our New York shipping committee, and it was in the stenographer's notes in that form. I had never heard anything about it before the meeting, and I did not know anything about it until I returned from that conference. When I came in Mr. Brent said to me, "I do not know how we did this——"

Mr. KELLEY (interposing). Who said that?

Mr. DENMAN. Mr. Brent. He said, "I do not know how we did this." And then there was a session of the board held—and it was a very, very warm session of the board—and within 20 minutes that was wiped out. Now, how, between 12 o'clock and half past 3, those gentlemen got there, and the session was held, and Mr. Connop Guthrie was placed on this group of administrators we had in New York, I do not know. I can tell you how he was taken off.

We did want this cooperation with the British to be worked out. We did ultimately have the same gentleman—not in my time, but later on—the same gentleman in cooperation with this board in New York. But the point was that we then had no ships to operate and had not gotten things started ourselves in the form that we wanted it; we had not had our conferences with the visiting commission; we were still up in the air as to what we were actually going to do. I looked upon it as extraordinary; in fact, as I look back upon all the extraordinary and significant things of that month, that seems the most important to me, more significant even than this matter of the Cunard ships.

You asked me on yesterday what my delegation of authority was in regard to the conference. I have here a copy of the outline of the conference and its members, given me by the State Department. It is as follows:

SHIPPING—ECONOMY AND SUPPLY.

Subjects:

- (a) Requisitioning of shipping.
- (b) Disposition and best use of available ships. (Coastwise trade, etc.)
- (c) German ships in United States ports.
- (d) Austrian ships in United States ports.
- (e) Enemy ships in neutral ports.
- (f) Shipbuilding in United States yards and elsewhere. (Supply of steel and other materials.)
- (g) Ships under construction for Allies and neutrals.
- (h) Employment of neutral ships not at present in allied trades.

British negotiators:

Mr. Balfour.
 Sir G. Foster.
 Sir R. Crawford.
 Admiral de Chair.

United States conferees:

Secretary of State.
 Mr. Polk.
 • Mr. Denman.
 Secretary of Commerce.

Now, in the course of that conference there were certain phases of it that approached the realm of the secret treaties affecting Shantung. My activities in that connection had, in my opinion, more to do with my departure from the Shipping Board than any other source of influence which, indirectly but powerfully, may have been the cause of my not being able to carry out my policies myself. If you can obtain the permission of the President—which I have always procured prior to any statement that I have made concerning my activities in his behalf—I believe that one of the sources of interference with my administration as chairman of the Shipping Board may be clearly disclosed.

Coming back to the subject of motor ships and the causes of foreign propaganda against them, you will recall that Great Britain was a coal-burning nation prior to the Great War and did not possess any great oil fields. British shipping has always been closely coordinated to British raw materials. The Burmeister and Wain Diesel patents were, however, being used in the Harlan & Wolff yards prior to the war, and during the war they produced a number of these large Diesel ships. In my testimony on yesterday it appeared that the British Diesel plants were turned on submarine construction. The Harlan & Wolff plant—in which Lord Pirrie has the interest I have spoken of—however, continued to build large-size Diesel-motor cargo and passenger ships during the war. Since that time, with the Mesopotamian oil fields in sight and now apparently in hand, has come an enormous stimulation of internal-combustion oil engines construction in Great Britain, producing the activities shown in the partial list of ships which I gave to you yesterday and which I trust will appear in the record. The long voyages of the Danes and Swedes and Norwegians are like ours in America. That, as I say, developed the Diesel long prior to this, and I now will read a short excerpt from a very voluminous writer on shipping matters, which you will find pertinent.

The CHAIRMAN. I know that we might find a whole library full of documents pertinent on the matter, but we can not continually fill up our record with excerpts, it seems to me, from various documents. We are asking for your views. You have expressed them pretty fully and submitted documents which are in the record here, and, besides, the matter to which this is directed is more a legislative proposition, which should properly go to another committee of the House.

Mr. DENMAN. I quite agree with you that I should not go on and on and on, but this happens to be Mr. Hurley, and it happens to show what Mr. Hurley recommends, and also shows what he knew in August, 1917.

Mr. STEELE. Is that an excerpt from his book "The New Merchant Marine"?

Mr. DENMAN. It is. I want to show that the vessels that he recommends as his type to-day are vessels of 1912 and 1913. It is very short:

Close in the wake of this first bold venture came the *Salandia*, engine by Burmeister and Wain, in 1911.

The *Salandia* is the first vessel in that group of pictures of 21 ships that I handed to you the day before yesterday.

This vessel is a 7,400 dead-weight ton cargo ship, driven by twin screws, each shaft being fitted with an 8-cylinder, 4-cycle, directly reversible marine Diesel motor of 950 brake horsepower. The vessel had been engaged in long voyages between Europe and the Indies in the service of the East Asiatic Co., and her performance has been so highly satisfactory that several hundred seagoing motor ships that have followed her in the service have been designed and engined in substantially the same way. There has been a tendency to larger cylinders with 4 cycles, but almost every improvement in the marine Diesel has been in mechanical betterment of parts. * * * An excellent and very full idea of the comparative economies of the steam engine using coal fuel and the Diesel motor using any of its wide range of oil fuels, may be had from the following extracts taken from the engineer's log book and to vessels in the employ of the same company engaged in making the same voyage.

Then follows a description of the vessels and the items of engine performance, showing a saving of 3 to 1 over coal. Now, this is a typical vessel, which is the basis of Mr. Hurley's conviction that we must go to the building of motorships. Astonishing to say, it exactly fits the *Siam*—410 feet long, 55 feet wide, 30 feet deep, dead weight carrying capacity 9,500 tons, and speed 11.14 knots. The *Siam* was the vessel that sailed into San Francisco in 1913, and the *Siam* followed the model of the *Salandia* and the hundreds of vessels Mr. Hurley described. Already had a very large number of them been built when I turned the project over to him.

Now, Mr. Kelley, you asked me on yesterday whether or not if the contract from the Cramps group was examined by Mr. Hurley in January, 1918, if that contract at that time would have been of any value to him?

Mr. CONNALLY. I would like to ask you a question with reference to the Hurley quotation which you say was from his book. When was the book published?

Mr. DENMAN. Recently.

Mr. CONNALLY. Why did you make the statement that the quotation would show what Mr. Hurley thought about the subject in 1917?

Mr. DENMAN. Because I told him this.

Mr. CONNALLY. But your telling him that does not appear there from the quotation from the book.

Mr. DENMAN. No; but I am showing the identity of my statements in 1917 with Mr. Hurley's statement in 1920.

Mr. CONNALLY. Do you think it hardly fair to say that you are quoting from a book, which was published in 1920, which would show what Mr. Hurley knew in 1917?

Mr. DENMAN. If you got that impression I am sorry.

Mr. CONNALLY. I think you gave it, and I think the stenographer's notes will show that way.

Mr. DENMAN. If I gave it that way I am glad you called my attention to it. The fact is that this statement is my statement in 1917 in form.

Mr. CONNALLY. But it is not shown in the book or written form.

Mr. DENMAN. What is here stated in Mr. Hurley's book in 1920 is a reproduction of our discussion in 1917. Mr. Walsh, on yesterday you were asking me about the contract proposed with the Cramps group, and our discussion at a luncheon, Mr. Hurley gave me, early in 1918, of the Cramps contract. At that time he could not have availed himself of it because when the contract was not taken up by

our successors the Navy came in and took up practically all the constructive capacity or activity of the Cramps plant.

The CHAIRMAN. For Diesels?

Mr. DENMAN. It was Navy construction. I can not tell you about Diesels. I think it was for steam, and that the Delaverne Diesel plant was not, as I understand it, acquired by the Cramp shipbuilding people, although I may be mistaken about that. The point is that the licenses of the Cramps were not utilized even early in 1918, nor were they utilized after the armistice, nor were any of the hundreds of steel contracts for cargo ships—for hulls I am speaking of now—let for the Diesel form have these other large Diesel plants that could have manufactured under the Cramp license or the Werkspoor license, or any other license utilized for making commercial Diesel engines, but instead some of them were converted into the manufacture of steam engines.

Mr. Kelley on yesterday asked me whether or not the operations of the Diesel engine in commercial carrying ships was a more or a less expensive operation than a steam vessel burning oil under the boilers in the form of propulsion, and I gave him my opinion. I have here the opinion of about 25 of the more important shipping men of the world, English and American and Scandinavian, on this subject, which answers that question:

The future of the motor ship is exceptionally brilliant.—Sir George B. Hunter.

The CHAIRMAN. How authentic are those?

Mr. DENMAN. They appear in this technical journal *Motorship*, and I imagine will not be questioned. They include Admiral Lord Fisher and the whole group of men who have been for years prognosticating, and many of them manufacturing Diesels. Sir Marcus Samuel, who is engaged very largely to-day, and has been during and since the war, in the manufacture of *Wurmeister* and ——— in England, makes a statement concerning their economies.

The Diesel oil engine is much more economical than the ordinary method of driving ships. You can't compete with foreign competitors on any other basis.—Admiral W. S. Benson.

I would like to see 200 American motor ships of 10,000 tons and 14 knots speed in service. Ship owners who are building steamships now will soon wish they had'nt.—Edward N. Hurley.

It behooves us to economize in the use of oil in every possible way.—Prof. B. E. Armstrong.

The coal-fire boiler and the steam engine have seen their best days, and in a short time may be on the scrap heap.—John Lockie, editor *Steamship*.

The fuel economy of the motor ship makes her cheaper to operate than the steamship in spite of greater investment charges.—Dr. Chas. E. Lucke.

We in Norway are convinced of the superiority of the motor ship.—Thor. Thoresen.

In a few years every shipbuilding concern in America will be devoting all its activities to building motor ships.—Geo. A. Armes, Union Iron Works.

The economic ship should have Diesel engines instead of either coal or oil fired steam engines.—Sir J. H. Biles.

Oil-fired boiler installations are a terrible waste of fuel.—Ernst A. Heden.

The editorials in *Motorship* are along the line of my sentiments and I'm glad to see you push the matter so hard.—Representative G. W. Edmonds.

You are in a splendid position to emphasize the advantages of the Diesel engine to American shipowners in their world-wide shipping competition.—Arthur M. Harris.

I have no reason to doubt the advantages of the motor ship. All the evidence is one way.—Admiral R. E. Coontz.

The marine oil engine is comparable in its importance with the introduction of the steam engine by Watt.—Lord Weir.

Steam-driven freighters will find it difficult to compete with Diesel-engined vessels. Builders on the Continent are fully alive to the vast amount of business that

lies ahead in the converting of the steam-driven mercantile marine to motor power.—
Editor Liverpool Journal of Commerce.

There should be justification shown for the construction of any oil-burning ship which does not use an engine of the Diesel type.—Ex-Secretary of the Interior Franklin K. Lane.

The Diesel motorship is the freight-carrying vessel of the world for economy.—
Frank C. Munson.

The necessity for economy is ever more urgent owing to the high cost of coal and oil.—Alexander Cleghorn.

You were asking me whether there has been any place in which this project in our time had been laid down as a matter of policy, and I am now quoting from the records of the Shipping Board:

Minutes of a special meeting, Wednesday, July 19, 1917.

The CHAIRMAN (Mr. Denman). I desire to say, General, that as to the proposals of the Cramp people as to the construction of Diesels, that that is the beginning of a great project, a project which involves the use of the Diesel motor ultimately as a substitute for steam. I happen to be familiar, and have been for some time an attorney for a company operating a fleet of Diesels between Scandinavia and California, with some of the details of their use and their value, and know some of the possibilities of their development.

* * * * *

In view of the fact that it is not a simple contract, but the beginning of a great project, I desired to have the Shipping Board present so that they could sit and consult with the various persons engaged in the project, get information and put questions, so that if they have any suggestions floating out of their experience and mine which is not entirely negligible they could, after consultation with you, work out the project in full.

* * * * *

The CHAIRMAN (Mr. Denman). We may also want to discuss the question whether or not the contract with these gentlemen for the development of the thing should be along the lines of Government ownership of the license, or Government ownership of the Diesel plant itself, just at you are going to make this fabricating ship plant.

After I retired from the board——

Mr. FOSTER (interposing). May I ask right there, how soon did you retire after the day on which that meeting was held?

Mr. DENMAN. On the 24th.

Mr. FOSTER. This was on what day?

Mr. DENMAN. The 19th. After I retired from the board I prepared a statement, which was read into the records of the Senate, as follows:

The Shipping Board had other constructive policies, both to meet war need and for the upbuilding of our mercantile marine, which it was framing, always acting under the pressure of the consciousness of the submarine menace and always under the necessity of creating a new branch of its organization as its functions were increased. A brief review of these policies may not be amiss:

1. The control and reduction of freight and charter rates. This required the commandeering power, which was not delegated to us until July 11, and cooperation with the Allies. Negotiations had progressed to the point where the plan could have been put in operation in a very short time after granting the power to commandeer. Quick relief was essential.

2. The commandeering of all our tonnage, with its continued operation for Government account, but in the hands of the private owners and, as far as possible, consistent with war needs in its former routes, carrying materials for our basic war industries.

3. The carrying out of the agreement made in June between the owners and seamen for a calling back to the sea of the large body of seamen on shore and fixing wages and bonuses during the war.

4. The chartering and control of neutral tonnage to serve the common war need.

5. The inauguration of the building of a Diesel motor-driven fleet of merchant ships of the Norwegian *George Washington* type, which, with the great saving in fuel and cargo space, wide sailing radius, and reduced labor cost, would free us from bunker control of other nations and give us a dominance in maritime carriage after the war.

That brings us to the subject of bunker control and how it was exercised on American ships before I became chairman of the Shipping Board and afterwards. The bunker control was exercised by the British Government, acting through its diplomatic representatives in the United States, and also through its consular representatives. An American fleet of vessels would have one ship in a British bunkering station, and be required, before it was permitted to obtain its bunker coal and sail away, to sign an agreement, through the management of the company, whereby the ship was to do certain things agreeable to the British war policy. The Pacific Mail Steamship Co. had a vessel in England and was compelled to sign one of those agreements before they could get her out.

Mr. KELLEY. Did that come to your knowledge as chairman of the Shipping Board?

Mr. DENMAN. Yes, sir.

Mr. KELLEY. Is there any record of it in the board?

Mr. DENMAN. I have a copy of the bunkering agreement, that was given to me by Sir Richard Crawford on my request, to learn what had happened to the Pacific Mail Steamship Co. This agreement provided, amongst other things, and we were then a neutral, that the American company's ships—not one of the fleet, not the particular ship that needed the bunkers, but any one of the fleet of that company—should carry no enemy of Great Britain on her. That is to say, our then neutral associates in the family of nations—the Bulgarians, Austrians, Germans, and the Turks and all countries at war with Great Britain—that no national of those countries should be carried on a Pacific Mail Steamship Co. ship, between, say, Manila and San Francisco, or between San Francisco and New York or any other American ports, or any other port in the world.

Mr. KELLEY. Great Britain was at war?

Mr. DENMAN. Oh, yes; she was at war. Mind you, when my administration developed I had in mind the same character of control. But the point I am making is, how it is done, so that you may have a picture here, and the members of the Congress may have a picture, of how these agencies may be utilized when you come into commercial or any other conflict.

Take the Jones bill, for instance, and it would be entirely proper, I mean legally proper, as a reprisal, for the business interests of Scandinavia or any other interests controlling coal bunkers to say: "We will not bunker a ship that under the provisions of the law of its flag has exceptional benefits from the Governments that are discriminating against us. That is the picture that I want to draw, but I am not trying to discuss the morals of it. The motor ships have a radius of 25,000 to 30,000 miles; they free you from bunkers.

Now, as to how many of those agreements were signed in all, I do not know. I understand that every fleet in the United States was compelled to sign one if they had a ship which wished fuel. The remark concerning bunkers is in explanation of the last sentence of my project as outlined to the Senate.

I was asked on yesterday about motor ships being constructed in this country. There are to-day 11 motor ships, aggregating one hundred and twenty and odd thousand tons, being built in America; and they, of course, are the beginning of many more to follow. Mr. Schwab is building four of about 20,000 tons' dead-weight capacity.

Mr. STEELE. Each one?

Mr. DENMAN. Yes; each one. That shows how the powers have developed since the 10,000-ton ships in my time and in Mr. Hurley's time. The 10,000-ton ships was what is regarded in a way as the unit of tramp cargo carriers. Two are being built for the American-Hawaiian Steamship Co. by the Cramps. Those I think are 12,000 tonners. Another is being built for the Alaska Steamship Co., but I have not got the size of that. Two are being built for the Standard Oil Co. of California. One is being built for the Submarine Boat Corporation.

In this connection I want to speak of the attitude of certain oil companies toward the Diesel motor ships which would cut down to a third the marine market for fuel.

Mr. CONNALLY (interposing). Mr. Chairman, I want to object right here, and ask how far is the committee going to pursue the Diesel proposition?

The CHAIRMAN. It seems to me that those matters are subsequent to the administration of Mr. Denman and his successors. I do not quite see the pertinency, except the fact, which appears, that they are building Diesel ships now. I do not know that we care anything more about that. This whole Diesel proposition, or a goodly portion of it, Mr. Denman, as you have testified about it before the committee, of course, is not strictly within the jurisdiction of this committee. You have explained very fully, and gone into the matter very fully, but there is a vast amount of it that does not come within our jurisdiction. You have brought out the fact that this proposition was under consideration at the time you resigned, and that a contract was practically to be signed and was not signed, and that it was feasible, according to your view; and I understand that Diesel ships are being built at this time.

Mr. DENMAN. That is in pursuance of the question put to me on yesterday.

The CHAIRMAN. I do not know who asked any questions which make what you are about to say responsive. I have no doubt that this information may be valuable or perhaps may be considered pertinent by some other committee, but you understand that this is not a legislative committee, and I do not think we ought to pursue the subject beyond the point that you have, I think, very fully developed; namely, that this matter was under consideration by you as chairman of the board; that the most of the details had been arranged; that a contract had been practically prepared and was being taken up with a view to signing it, and was handed down by you to the subsequent administration, but nothing was done by them.

Mr. DENMAN. I think you have been very generous with me, Mr. Chairman, in allowing me to expand.

The CHAIRMAN. We endeavor to give every witness a chance to make whatever statement it is his desire to make, but of course you must appreciate that there are limits within which the investigations of this committee must be confined, and, as Mr. Connally suggests, I do not quite see that we would be justified in pursuing it any further along the apparent lines of your statement just now made.

Mr. DENMAN. To briefly explain that, Mr. Kelley, on yesterday, asked me about relative costs.

The CHAIRMAN. Well, you have given them to us.

Mr. DENMAN. And I am quite certain that Mr. Kelley had in mind a statement that emanated from one of the employees of the oil company; but there is no need for going into that.

The CHAIRMAN. You have furnished us a list that developed the cost.

Mr. DENMAN. All right.

The CHAIRMAN. Have you any questions, Mr. Steele?

Mr. STEELE. Just a few. Mr. Denman, awhile ago you stated that you severed your official connection with the Shipping Board on July 24, 1917. Were you connected in any way with the Shipping Board subsequent to that time?

Mr. DENMAN. No, sir.

Mr. STEELE. Then did you have any means of knowing what their transactions were after that time; that is, in an official way or by any connection with the board?

Mr. DENMAN. I had various consultations with members of the board, and some of them were good enough to seek my advice, and some got it gratis.

Mr. STEELE. After your connection with the board ended, did you remain in Washington?

Mr. DENMAN. I was here for about three weeks. I wrote a letter to Mr. Hurley, advising him that I desired to lay before him these projects.

Mr. STEELE. That is, the Diesel projects?

Mr. DENMAN. And the division of accounting, and——

Mr. STEELE (interposing). I understand that you live in San Francisco?

Mr. DENMAN. Yes, sir.

Mr. STEELE. That is your home?

Mr. DENMAN. Yes, sir.

Mr. STEELE. It was then and is now?

Mr. DENMAN. Yes, sir.

Mr. STEELE. And I suppose after you severed your connection with the Shipping Board you returned home.

Mr. DENMAN. No; I was here for four months in the spring of 1918, in connection with certain litigation I had here, and during that time I was in constant conference with different persons connected with the Shipping Board. I have visited Washington and consulted with board members twice besides.

Mr. STEELE. That is, as to general policy, etc.

Mr. DENMAN. Yes, sir; as to general policy.

Mr. STEELE. You did not keep informed as to details?

Mr. DENMAN. Oh, no.

Mr. STEELE. So that anything that took place after that as to detail matters of accounting and things of that kind you have no official knowledge of them?

Mr. DENMAN. Not as to details of accounting, but the general policy being pursued was known to all of us.

Mr. STEELE. On yesterday you placed in the record a list of the ships being constructed in Great Britain of the Diesel type.

Mr. DENMAN. Yes.

Mr. STEELE. Were they constructed under Government or private management?

Mr. DENMAN. I think nearly all of those were under the—those now being constructed are under private management, but during

the war all shipping in Great Britain, as it was in the United States, was under Government control. Lord Pirrie, who is constructing them, was British comptroller of shipping.

Mr. STEELE. That list is made up of ships under private management?

Mr. DENMAN. Yes, sir.

Mr. STEELE. You also referred to having obtained a license with reference to the Diesel engine.

Mr. DENMAN. I obtained it in this sense, that I got the Cramps to make a tender of the license that they already had, in connection with the contract.

Mr. STEELE. The Diesel engine had been patented, had it not?

Mr. DENMAN. Well, there are a great many patents. The original patent of Mr. Diesel had expired, but the idea had been appropriated to many forms of propulsion, and this particular one that was chosen by Lord Pirrie, who was the master of English shipping during the war and was had by the Cramps, was the one I chose.

Mr. STEELE. Has that been patented in this country?

Mr. DENHAM. I presume it has, but I do not know.

Mr. STEELE. It was from the Cramps that you obtained this license that you speak of?

Mr. DENMAN. I obtained it in the sense that I got the Cramps association to offer to build it.

Mr. STEELE. On yesterday you referred in a general way to the British having acquired control of the Mesopotamian oil fields. Prior to that what was the comparative production of oil in the United States and Great Britain?

Mr. DENMAN. I can not give you the figures, but it was overwhelmingly in favor of the United States.

Mr. STEELE. As a matter of fact we export large quantities of oil, do we not?

Mr. DENMAN. Oh, yes. Our supply is being drained by British fuel consumption in ships to-day and other ships—Scandinavian and the whole group.

Mr. STEELE. But the whole matter is under the control of this country as far as surplus production is concerned?

Mr. DENMAN. That is quite correct—well, I disagree with you, and will correct that by saying it is within the United States, but not under United States control.

Mr. STEELE. Well, it could be in time of war.

Mr. DENMAN. Yes. But not now when it is being drained for our competitor's benefit.

Mr. STEELE. In discussing your original organization, Mr. Denman, you stated that you believed in division of responsibility.

Mr. DENMAN. Division of functions and responsibility over them.

Mr. STEELE. In your scheme of organization which you outlined here, then, each particular division was confined to its own work.

Mr. DENMAN. Well, two grand divisions were all I spoke of. That is, operations on one side and manufacture on the other.

Mr. STEELE. During your administration did you ever take cognizance of any other department of the Government at all?

Mr. DENMAN. Any other department of the Government?

Mr. STEELE. Yes. For instance, in your division as to the carriage of materials did you take into consideration that the Army or the

Navy Department or the War Department might be interested in the transportation of that particular article?

Mr. DENMAN. Yes. During those weeks in which I said I was very rarely at the actual detail administrative meetings of the Shipping Board I was in constant consultation with Secretary Baker and Admiral Benson, and both of these gentlemen lent their cooperation, as well as did their subordinates, toward getting a uniform scheme for the control of shipping.

Mr. STEELE. That was with reference to the organization.

Mr. DENMAN. Yes; that was with reference to the organization.

Mr. STEELE. So far as Army affairs were concerned, that was left to the War Department, and so far as naval affairs were concerned that was left to the Navy Department.

Mr. DENMAN. Yes, sir; but in coordination.

Mr. STEELE. This organization, as I understand you, had to be gotten up very quickly, almost on the spur of the moment, and was entirely different from the War Department or the Navy Department, which had grown up and developed through a long series of years.

Mr. DENMAN. Yes; and purposely different, because it was to be a commercial shipping administration and in constant contact with live commercial business men, and would attempt to absorb their methods as distinguished from the more highly centralized and technical methods necessary to the Army and the Navy.

Mr. STEELE. The details of the construction department you say, were left almost entirely with Gen. Goethals.

Mr. DENMAN. All details were left to him.

Mr. STEELE. All details with reference to that department?

Mr. DENMAN. Yes, sir.

Mr. STEELE. And you said the difference between the disbursement of the presidential fund and the direct appropriation to the Emergency Fleet was as you outlined?

Mr. DENMAN. Well, the distinction I was making at that time, when I was testifying a few minutes ago, Mr. Steele, was the difference between the emergency fund that we used to operate and repair these German ships, and the \$50,000,000 with which we bought stock of the Emergency Fleet Corporation. Now, thereafter, following the act of the 15th of June, 1917, and the allocation of powers by the President on July 11, 1917, vast funds came from the Congress, legally through the President, but from him directly to the Emergency Fleet Corporation, and in legal contemplation did not pass through the Shipping Board.

Mr. STEELE. When was the Emergency Fleet Corporation organized?

Mr. DENMAN. On the 18th of April, 1917.

Mr. STEELE. When did you have the appropriation from the Congress?

Mr. DENMAN. The original act of September, 1916, provided an appropriation of \$50,000,000 for a Shipping Board and it gave to the Shipping Board, that original act did, the power to create corporations for the stimulation of shipping activities. When the war came on the legislation that I proposed to the Congress in the session ending on March 4 was defeated in the press of the activities of the last two weeks, as you will remember, of that session. So that I had

no new war powers to act under when the war was declared on April 6. So that what I did was to create the Emergency Fleet Corporation out of this original act which provided for the creation of these corporations.

Mr. STEELE. I was directing your attention peculiarly to the war powers. They came along in June, did they not?

Mr. DENMAN. On June 15. I was with the Congress for about five weeks shaping up that bill.

Mr. STEELE. That act was passed on June 15, and you severed your connection with the board on the 24th of July following.

Mr. DENMAN. Yes, sir; I got no powers under the act until the 11th of July.

Mr. STEELE. So that so far as your official connection with the administration of that act is concerned it was confined to a period of about two weeks?

Mr. DENMAN. That is correct.

Mr. STEELE. On yesterday, Mr. Denman, in the course of your testimony you referred to the very familiar maxim, "Oh that mine enemy would write a book." Will you tell us who the enemy was and what was the title of his book?

Mr. DENMAN. I was referring to my own statement, in which I unfortunately used the phrase that Mr. Kelley promptly seized upon. I was not referring to anybody else.

Mr. STEELE. The impression on the minds of some people was that you were referring to other people.

Mr. DENMAN. No; and the fact is I never saw the book you evidently have reference to until this morning.

Mr. STEELE. The impression on some peoples' minds was that you were referring to that book.

Mr. DENMAN. To make that clear let me say that the gentleman I am speaking of, Mr. Hurley, I have had most delightful and amicable relations with. I have had no break with Mr. Hurley, and admire him greatly. He did not take my policies, it is true, but——

Mr. STEELE (interposing). Well, I merely wanted to correct that.

Mr. DENMAN. Well, I am glad you did. I was my own enemy in that case, Mr. Steele.

Mr. STEELE. That is all.

Mr. FOSTER. You were the author of that book to which you referred on yesterday?

Mr. DENMAN. Yes, sir. I meant my prepared statement.

The CHAIRMAN. Mr. Hadley, have you any questions?

Mr. HADLEY. A few. Mr. Denman, you referred to the record this morning for a statement with regard to the board's policy that you wished to have executed with reference to Diesels. Were those the minutes of the Emergency Fleet Corporation or of the Shipping Board?

Mr. DENMAN. They were Shipping Board minutes. General Manager Goethals and the Shipping Board were in conference.

Mr. HADLEY. They were on the 19th of July?

Mr. DENMAN. Yes.

Mr. HADLEY. And you resigned on the 24th of July?

Mr. DENMAN. Yes, sir.

Mr. HADLEY. At the time that you made that statement that appears in the minutes of the Shipping Board I infer from your

earlier testimony that you had no knowledge that you were likely to resign.

Mr. DENMAN. That is correct.

Mr. HADLEY. That information came to you later.

Mr. DENMAN. It came to me about an hour before I resigned.

Mr. HADLEY. So that this minute was made in the ordinary course of business and in anticipation of proceeding regularly throughout a continuing administration.

Mr. DENMAN. Yes.

Mr. HADLEY. The act of September, 1916, under which the Emergency Fleet Corporation was organized of course had not in contemplation the exercise of any war powers. That was for commercial ship construction and commercial purposes, was it not?

Mr. DENMAN. No; there was a very large group of provisions of a war nature in that act. That act was——

Mr. HADLEY (interposing). I was referring to the section of the act which dealt with the organization of corporations.

Mr. DENMAN. No; the organization of corporations was contemplated for commercial activity.

Mr. HADLEY. And it was provided that one or more corporations might be formed as in the judgment of the board might be thought necessary and proper?

Mr. DENMAN. Yes, sir.

Mr. HADLEY. As a matter of fact one was organized and only one; there never has been but one organized, has there?

Mr. DENMAN. That is correct. I wanted another.

Mr. HADLEY. And that was organized for the purpose of prosecuting construction work.

Mr. DENMAN. Emergency construction work, as it was called. But we hoped to go ahead in the emergency and make the ships of as permanent type as we could.

Mr. HADLEY. And the board was organized in January, some three months before we entered the war.

Mr. DENMAN. Some two months.

Mr. HADLEY. The corporation was organized a short time after we entered the war, 10 days or such a matter, was it not?

Mr. DENMAN. Yes.

Mr. HADLEY. But the emergency shipping act referred to by Mr. Steele a moment ago was passed in June.

Mr. DENMAN. Yes.

Mr. HADLEY. Did the act which you had reference to in your answer do more than provide an emergency shipping fund for ship construction during the war?

Mr. DENMAN. Yes; that act provided for powers for construction and particularly for powers which I sought throughout the month of May to control the building of nonwar steel structures, high buildings, and bridges; the act gave the President power to place a preferential order that would cut out nonwar construction and concentrate the steel producers on war material.

Mr. HADLEY. The crux of that was this, was it not: To confer upon the President the power to construct ships and appropriated a given sum of money for that purpose; that is correct, is it?

Mr. DENMAN. Yes, sir.

Mr. HADLEY. And it also conferred upon him the power to do it through such agency or agencies as he might determine?

Mr. DENMAN. That is correct.

Mr. HADLEY. And he did determine upon the Shipping Board.

Mr. DENMAN. Yes; for operation.

Mr. HADLEY. And delegated the power to the board——

Mr. DENMAN. (interposing). Construction went to the Emergency Fleet Corporation.

Mr. HADLEY. Well, in saying the board, the Emergency Fleet Corporation is an arm of the board; although independent, it really is its own creator.

Mr. DENMAN. It was at the time of the creation; but I believe, Mr. Hadley, that the devolution of the power from the President to the corporation passed entirely by and not through the Shipping Board, and the only way the Shipping Board became interested was indirectly, in that the members of the Shipping Board were members of the corporation. I think that is the legal effect of the act of June 15, 1917.

Mr. HADLEY. At the time the President conferred these powers upon the Emergency Fleet Corporation did he accompany that with any specific directions, or did he simply leave it with the board and the Emergency Fleet Corporation to execute the power in their own way without any presidential direction?

Mr. DENMAN. There was no direction from the President other than as contained in the order. But the President had been in discussion with Gen. Goethals and myself regarding the prospect for getting a large quantity of vessels. As to the division of authority, the order he gave clearly determined that.

Mr. HADLEY. The order itself passed the authority for construction to the Emergency Fleet Corporation?

Mr. DENMAN. To the Emergency Fleet Corporation, and for operation to the Shipping Board.

Mr. HADLEY. Then it developed in this statement that this division of authority was not one instituted by yourself but by the President through you.

Mr. DENMAN. Well, I submitted the draft of the order to him.

Mr. HADLEY. Yes, I appreciate that; but the President really determined that policy.

Mr. DENMAN. Yes,

Mr. HADLEY. And in all that procedure afterwards it was the result of that policy of segregation of authority.

Mr. DENMAN. No; all that proceeding afterwards in my opinion, or not all but a very considerable portion of the difficulty that occurred afterwards, arose from not following the President's order.

Mr. HADLEY. Well, I meant to say that the outstanding authority under which presumably things would occur was in pursuance of that division of authority?

Mr. DENMAN. Yes, sir.

Mr. HADLEY. Whether it was followed or not is another matter.

Mr. DENMAN. Yes, sir.

Mr. HADLEY. Then, as far as this committee is concerned, in measuring the regularity of what was done, that, after all, has to be measured by the terms and stipulations of the by-laws and minuted of the Emergency Fleet Corporation, when we are referring to the manufacture of ships.

Mr. DENMAN. That is correct.

Mr. HADLEY. And as to repairs and operations we would refer to the minutes and proceedings of the Shipping Board.

Mr. DENMAN. You would, if it had been followed.

Mr. HADLEY. As to whether it was followed after you left the board you are not personally familiar?

Mr. DENMAN. Only by the statements of the members of the board.

Mr. HADLEY. Under the by-laws of the Emergency Fleet Corporation was this delegation of authority to Gen. Goethals, to which you referred in the early part of your testimony, such authority?

Mr. DENMAN. Yes.

Mr. HADLEY. Was it in the by-laws or in the minutes by resolution?

Mr. DENMAN. My recollection is that Gen. Goethals was, or rather, the position of general manager was created in the by-laws themselves.

Mr. HADLEY. And the resolution providing for the selection of Gen. Goethals established the matter of the board's action, in pursuance of the by-laws.

Mr. DENMAN. Yes.

Mr. HADLEY. But if I understand you, this scheme of organization, after the selection of Gen. Goethals, it would not be within your province under the by-laws to interfere in any way with his management of the affairs of the Emergency Fleet Corporation.

Mr. DENMAN. No; except that as the general manager would be under the direction of the board of directors, and acting as president of that body the discussions of the directors I would participate in. But the understanding of all of us and every one, from the President himself down, beginning when he sent for Gen. Goethals or wrote for him to report to us, was with the understanding that he was to have control as he had had on the canal, for details of construction. You will recall that the canal was designed by the engineers and then carried out by Gen. Goethals, and it was that concept here. You can not understand it without picturing him in his prior accomplishment.

Mr. HADLEY. Such conception would be specified in the by-laws of the Emergency Fleet Corporation.

Mr. DENMAN. Yes, sir. There was an executive committee in the Fleet Corporation that Gen. Goethals was on, and that was Gen. Goethals; in fact, the executive committee was really Gen. Goethals himself.

Mr. HADLEY. Referring to another feature of your testimony: You classified the recognized forms of contract for ship construction, and I think you named three; was that correct?

Mr. DENMAN. Four.

Mr. HADLEY. The lump-sum contract, the fixed sum plus a fixed fee, and the contract plus percentage, and what was the fourth?

Mr. DENMAN. The lump sum was variable as to certain items. So that if a ship was to cost \$1,000,000, and the steel plate was estimated at 2½ cents a pound, and yet the plate actually cost 3 cents or 3¼ cents, the Emergency Fleet Corporation would be compelled to absorb the difference between 2½ cents named in the contract, the tentative price, and the 3 cents or 3¼ cents actually paid for the plate.

I do not know whether I did say on yesterday or not that Judge Gary, after the controversy over the price of steel plate, offered us all we wanted at 3 cents a pound.

Mr. HADLEY. Am I correct in understanding from your testimony that the board at no time during your incumbency adopted the plan of cost plus a percentage?

Mr. DENMAN. That is correct.

Mr. HADLEY. That is, cost plus a percentage on the cost.

Mr. DENMAN. That was not adopted.

Mr. HADLEY. Were any contracts executed during your incumbency that so provided?

Mr. DENMAN. My recollection is that none was executed of that character.

Mr. HADLEY. Do you recall the occasion when a delegation of contractors, or intending contractors, from the three Pacific Coast States came to Washington to take up with the board the question of an alleged discrimination against the Pacific coast builders, wherein it was claimed that an order or an edict of some kind had been issued to the effect that the cost plus a percentage plan would be applied in the East, but not on the Pacific coast, and that the lump-sum contract was to obtain out there, and that only? Do you recall an occasion of that kind arising while you were on the board?

Mr. DENMAN. I think I do. There were many delegations; the fact is that Washington was swamped with delegations, but I remember a statement about discrimination, but whether it was between the two coasts or between the coast and some certain contractors in other places I do not recall. But as I recollect it I told the spokesman of that group, or some member of that group, to take the matter up with Gen. Goethals, and I think it was adjusted at the time.

Mr. HADLEY. I think that is true, but I was seeking to ascertain what the fact was—as to whether that was an actual order that had gone into effect or a plan that was contemplated and abandoned.

Mr. DENMAN. I think not. I know that Gen. Goethals was always strongly against the idea of permitting a contractor to think that he could be easy in construction and lax in administration, so that there would be a building up of costs which would build up his profits.

Mr. HADLEY. As a matter of fact, that plan was adopted later and applied in the course of ship construction, was it not?

Mr. DENMAN. I only know that by hearsay. The general understanding of the street is that there were two or three contracts of that character let.

Mr. HADLEY. Who determined the kind of contract that should be made during your administration?

Mr. DENMAN. The Emergency Fleet Corporation's manager. It was a part of their functions.

Mr. HADLEY. In the determination of that was it left entirely to the general manager or did the board of directors and you as president of the organization have a consulting status regarding the character of contract?

Mr. DENMAN. No——

Mr. HADLEY (continuing). I do not mean a specific or individual contract but the general policy under which contracts were to be made.

Mr. DENMAN. I think you will find in the records of the board a memorandum or a series of memoranda exchanged between Gen. Goethals and myself regarding the method of compensating contractors. My memory is not clear regarding that, but sometimes

there would be a memorandum exchanged, and sometimes we would meet and discuss the matter.

Mr. HADLEY. Did you have under consideration, among other plans, the question of cost plus a fixed percentage?

Mr. DENMAN. Yes. A great many men would say: We do not want to go into the building of ships. We have two ships that we can build, but we do not want to build ten or twenty, because it is risking our capital under adverse conditions. Some of them were very patriotic and were willing and anxious to do all they could, but different men urged that if they were going to take this risk they ought to have a corresponding gain; that in event they had difficulties to arise in securing materials, at a higher price, or difficulties in looking around to find labor, and more particularly administrators, because that was where the weakness was in the building of ships; to get men to take those plants and lick them into shape, or to get draftsmen and specialists that were necessary, they thought they ought to have something more. That did not appeal to us. We felt that in war time that if a fellow had patriotic energy, a fixed fee was enough to pay him for it.

Mr. HADLEY. What in your opinion is the difference between that kind of contract and one with a fixed fee, as to probable cost?

Mr. DENMAN. The fixed fee contract gave no pecuniary temptation to the contractor to expand cost. The percentage system over the entire cost of course had a direct pecuniary inducement in it to permit the men to loaf on the job, make a wasteful use of materials, and increase the cost of construction.

Now, the Navy had pursued the percentage policy in a very large number of these contracts. On the other hand, they had a long-developed group of skilled inspectors and administrators, that in many cases practically took charge of plants and kept them within bounds, or attempted to do so—and when I say “kept” of course that I do not know—but they attempted to keep them within bounds as to expansion of cost of plants that might otherwise have been unlimited if the contractor decided to make money and nothing else.

Mr. HADLEY. Whereas in the administration of the board and the Emergency Fleet Corporation you found much difficulty, did you not, in getting men of experience, or any experience at all in the requirements of inspection and administration?

Mr. DENMAN. As a matter of fact, so far as the type was concerned, a large percentage of them were nonexistent. They had to be created, they had to be taken from other classes of manufacture and made ship manufacturers.

Mr. HADLEY. There were very few facilities for shipbuilding at all in the shipbuilding sections as they were afterwards developed?

Mr. DENMAN. That is true.

Mr. HADLEY. On which coast did the greater facilities exist?

Mr. DENMAN. At the beginning of the war the greater facilities existed on the Atlantic coast. At the height of the construction the Pacific coast built, not comparatively but in the gross more vessels.

Mr. HADLEY. Isn't it a fact that the Pacific coast built more than 50 per cent of the tonnage that was delivered during the combat period?

Mr. DENMAN. It was so announced. The climate there permits construction in summer and in winter. With climate such as we

have on the Pacific coast in the summer there is no heat and men are not ducking in out of the sun when working on the hulls, and in the winter time there is no intense cold so that men are seeking to go to fires when riveting.

Mr. HADLEY. Deliveries began earlier on the Pacific coast than on the Atlantic, did they not?

Mr. DENMAN. I do not know about the case of single ships, but I think the mass of tonnage began earlier.

Mr. HADLEY. Do you know why that was?

Mr. DENMAN. You know the shy attitude that we Pacific Coasters have about introducing the subject of our climate. My impression is that it was due to the superior activities of the men who came within the beneficent range of our climatic conditions.

Mr. HADLEY. I was led to ask that question by reason of observations I had made. I notice that near the end of November, 1917, the first steel ship was ready to launch the next day in Seattle, named *City of Seattle* as I recall. At Hog Island yard, which I visited, with the Committee on Merchant Marine and Fisheries on the 23d of May, 1918, six months later, I think there were nearly 50 keels laid, but only two ships partially underway above the keels, as I recall.

Mr. DENMAN. Keel-laying was a great trick, you know. I do not use the word "trick" offensively; but there was a provision in the contract, as I recall it, that a certain amount of the payment would come on the laying of the keel—and I am not thinking of Hog Island now, particularly—but they got those keels laid with most extraordinary dispatch, and then the other materials would be assembled and the progress of the ship would be more deliberate. The real test of a yard was the mass of tonnage delivered in a given time: tons per week, was the real determining factor in regard to a plant's output.

Mr. HADLEY. The same general condition existed largely upon the Delaware, at that time, as I remember. That is, that much progress was being made in the way of preliminary work, but that very little progress was being made in the way of completed ships. We visited 158 ways.

Mr. DENMAN. You will remember that the figures that Gen. Goethals gave me as to the cost of Hog Island, an outline of which I was seeking for the Congress in that week before we resigned, showed a total estimated cost, of, in the neighborhood, \$22,000,000. The yard cost in fact, according to the records of the board, upward of \$60,000,000. What happened between the time of my resignation and the time of your visit was described in the report I think of the Department of Justice as "an organized riot"—that was not a sympathetic report. The project was an enormous one. It did not get under way until the ground began to freeze, and they had to steam the ground out to get the piles in in many cases; and then it was so huge that the mass of persons engaged in the work were very difficult to organize for efficient operation.

I think a more interesting comparison would be what individual yards did in the east as against individual yards in the west with a similar start. And there is no question about the situation—that the cold weather in the east, the freezing, not only pulled back the energies of the laborers, but it actually had an effect on the construction of the ships; the variations of temperature arising in the eastern

shipyards between the time of the laying of the keel and the finishing of the vessel, the expansion and contraction of different portions of the ship, making an appreciable addition to the cost, in refitting rivets and readjusting frames, beams, and plates.

I remember that the foreman of the Harlan & Wolff yards called on me in the month of June and figured a percentage, which I believe was 4, on the heat and cold expansion and contraction of steel members, in favor of construction in the temperate climate of the Pacific coast against the more difficult climates of countries like Denmark and Norway and territories where there is severe winter frost. It was a very interesting comparison that he had made, and he had worked it out and was going back to Lord Pirrie's company with certain recommendations to establish British yards on the Pacific coast of the United States.

Mr. HADLEY. Did you have under consideration the building of concrete ships during your administration?

Mr. DENMAN. The first discussion of concrete ships came up in my time. It was first looked on as a joke, and then more and more definite plans developed, and it had received serious discussion when we left.

Mr. HADLEY. Were you favorably disposed toward the construction of ships of concrete?

Mr. DENMAN. I should have tried it, because in doing that you disturb practically no steel vessels—in both wood and concrete—papier-mâché and tin, too, as far as that is concerned, if a good scientific prognosis were made and it would not interfere with steel, I think we would have tried it out, provided it did not require too large an original expenditure. The original experiment with concrete was comparatively small in cost.

Mr. HADLEY. Had the *Faith* been constructed?

Mr. DENMAN. No; I think the *Faith* was launched in the spring of 1918, while I was in Washington. I may be wrong about that.

Mr. HADLEY. So if you had proceeded it would have been purely upon an experimental basis, without any practical knowledge of the practicability of concrete ships?

Mr. DENMAN. No; I think there had been some little building of concrete ships at the time—perhaps a concrete barge or two on the Mississippi River.

Mr. HADLEY. But there has been no ocean-going freighter in service?

Mr. DENMAN. No. I understand that there are now two concrete oil tankers on the Gulf that are rendering admirable service. There was a very serious question as to whether they would carry oil, whether the oil would not disintegrate the concrete or the bond of concrete and steel. But it seems to be all right.

Mr. HADLEY. That is all.

The CHAIRMAN. Mr. Connally, do you want to ask any further questions?

Mr. CONNALLY. I want to ask Mr. Denman one or two questions along the line that Mr. Steele asked him a while ago, as to whether he was testifying along the line of general knowledge rather than first-hand information?

Mr. Denman, you said on yesterday that Mr. Rosseter's time, after he reached Washington, was spent in straightening out matters

of accounting rather than in operation. As a matter of fact, that was subsequent to your direct connection with the board?

Mr. DENMAN. Yes; and in regard to that statement I did not mean to say that his entire time was so taken up. I say that his constructive energies were hampered by the difficulties of accounting and the establishment of managerial control over those agencies.

Mr. CONNALLY. The point I want to direct your attention to is, whatever information you have on that is second hand information, is merely hearsay? You were not here and were not connected with the Shipping Board then?

Mr. DENMAN. I was neither here all of them nor connected with the Shipping Board. All information I have given you concerning what other people did in my own time or any other time is what they told me and what I saw in the reports, as is the case of all the information in practically all of the testimony here along that line, I assume. There is no man who can come to you and testify as to policy who is not obliged to take the whole field as it lies and depend on reports of other officers as to some of it.

Mr. CONNALLY. The point is that you were in San Francisco the most of the time and Mr. Rosseter was here in Washington, and what you know of the actual doings of Mr. Rosseter were not gained by yourself.

Mr. DENMAN. I was not in the Shipping Board side with him, no, sir. But I do know that energetic and powerful men have only so much energy to go on, that there is a limit to the best of them. They function to a certain point and quit.

Mr. CONNALLY. Certainly.

Mr. DENMAN. And if a man has got to spend his time correcting past mistakes, as quite likely, they had to correct those of my administration, there is a limit to the other things he can do.

Mr. CONNALLY. There is no controversy about that, but I just want to get the weight to be attached to your testimony by getting the source of your information. You also made some statements about if we could get the President to consent to open up the question of secret conferences, etc., we might secure the reason for your being requested to resign.

Mr. DENMAN. I said the influences which led up to it.

Mr. CONNALLY. You received a letter from the President which caused your resignation, did you not?

Mr. DENMAN. Yes; and that was published.

Mr. CONNALLY. And that was what you acted on?

Mr. DENMAN. Yes, sir.

Mr. CONNALLY. You accepted that as the cause of your resignation?

Mr. DENMAN. No.

Mr. CONNALLY. You accepted that as an expression of the reason why you resigned; as the expression of the reason?

Mr. DENMAN. An expression.

Mr. CONNALLY. Then you think there were other and secret influences that were not expressed in that letter?

Mr. DENMAN. In the creation of the opinion of an administration that the public and individuals have, there is an accumulation of impulses and impressions. I presume I have gathered about as complete an aggregation of diverse influences as an administrator could. I wanted to open the St. Lawrence Channel before we got into

the war and certain railroad men and New Yorkers did not like it. I wanted lower freights and certain shipping men did not like it. Lower steel made enemies, as did Diesels, the St. Lawrence, etc.

Mr. CONNALLY (interposing). Let us not get off onto the St. Lawrence. That is a little far away from this committee.

Mr. DENMAN. If we are to judge the act of the dismissal of an administrator we have to take into consideration his public availability and, if he is right or not, whether he has ceased to be useful; because with an accumulation of adverse comment on him you might be justified in removing him, although you would resolve each one of the controversies in his favor.

Mr. CONNALLY. Certainly. And you will recall that I asked you the other day if you and Gen. Goethals both simultaneously resigned, and if naturally in that case the question would not arise if it was not a matter between you. But you did not accept the statement in the letter of the President as being the reason; you think there was something behind it?

Mr. DENMAN. I would like to make a statement in regard to that.

Mr. CONNALLY. I ask you whether you did accept it or not.

Mr. DENMAN. My impression is that the President had received innumerable complaints about the different matters as to which I had disagreements of policy; like the St. Lawrence matter, as to which the railroad men were not pleased; and with the accumulation of those things in his mind, including this matter I referred to this morning, it led him to believe I was not available.

Mr. CONNALLY. It was all a myth about the difference of opinion between you and Gen. Goethals on the policy of the board?

Mr. DENMAN. On wooden ships; yes, sir.

Mr. CONNALLY. What was the difference between you and Gen. Goethals?

Mr. DENMAN. We are entirely agreed on the Diesels.

Mr. CONNALLY. I did not ask you about Diesels. I am satisfied you convinced him about Diesels. But what was the difference between you and Gen. Goethals which, perhaps, resulted in the resignation of both of you?

Mr. DENMAN. I think the thing that focused public attention at that time was Hog Island.

Mr. CONNALLY. In what respect? Were you in favor of Hog Island and he against it, or you against it and he for it?

Mr. DENMAN. Both of us were strongly in favor of building a fabricating steel plant.

Mr. CONNALLY. There was no point of difference between you there.

Mr. DENMAN. No. I was in favor of having a very full and complete statement of the anticipated cost, and very careful planning as to the anticipated project, before we got into it. Gen. Goethals's idea, apparently, was to take the services of this group of men in New York that had prepared for him an outline of cost and develop the project as he went along. And we were discussing that matter between us, and I think the general—although it is not for me to explain what was in his mind, but my impression was that Gen. Goethals thought that this was the beginning of a series of invasions on his administration that would hamper his activities. And if it had been he was right in resenting it, because he should have been in

charge of the job and we should not have interfered. Now, it was not our intention to do that. That was pending, and while it was pending the papers were filled, from one end of the country to the other, with articles about "the dispute between Gen. Goethals and Mr. Denman; and Mr. Denman desiring to build wooden ships and Gen. Goethals desiring to build steel ships, and wood being the character of Mr. Denman's head and steel being the character of Gen. Goethal's resolution." That was the picture in the press at the time.

Mr. CONNALLY. Yes; we recall it. Now, how far did this difference between you and Gen. Goethals proceed? You wanted an estimate of cost and such an estimate was made out, wasn't it? And didn't you refer to it in your testimony as \$22,000,000?

Mr. DENMAN. Yes; and it reached me on the day or the day before we resigned.

Mr. CONNALLY. The estimate?

Mr. DENMAN. Yes.

Mr. CONNALLY. So then there was no trouble about that, because you had your way about that? Gen. Goethals did not object to this, did he? I just want to press this controversy matter enough to see how it eventuated.

Mr. DENMAN. That was all. I never had any feelings that the Hog Island dispute would not be resolved and resolved amicably; that all the alleged differences, if there was a difference in the general's mind as between us, would not be resolved. I have dealt with a great many men, not as great as Gen. Goethals but of commanding power, and have had no difficulty in contact of that kind.

Mr. CONNALLY. Well, really it never came to a controversy at all? It was only a difference of opinion, which did not result in hurting your feelings, did it?

Mr. DENMAN. Gen. Goethals was very determined that we should not invade his power of administration. Now, there were persons who utilized those reports of differences, who, I am told, appealed to the Council of National Defense, and quite likely appealed to the President, though I do not know that, to get rid of us, so there would be no Diesels and no Mr. Denman and no Gen. Goethals, and a new crowd would come in, and with their inexperience things would drift along until they got experience.

Mr. STEELE. So they were really after the Diesels? That is the animal they were chasing?

Mr. DENMAN. No; I think that was only one of the good many things. My policies on steel prices, lower freight rates, the St. Lawrence, the control of neutrals, the abolition of the fugitive sailor law and many other matters.

Mr. CONNALLY. I believe that is all.

Mr. STEELE. One or two matters occurred to me during Mr. Hadley's examination. Was the Hog Island site determined upon during your administration, Mr. Denman?

Mr. DENMAN. Yes.

Mr. STEELE. Was the site selected by Gen. Goethals?

Mr. DENMAN. It was.

Mr. STEELE. When was construction commenced upon Hog Island, do you recall?

Mr. DENMAN. I think Admiral Capps waited for several weeks.

Mr. STEELE. Do you recall that it was about September when actual work was commenced?

Mr. DENMAN. Well, that would be a month or a little over a month.

Mr. STEELE. It required a great deal of development work before he commenced construction of the ways at Hog Island, did it not?

Mr. DENMAN. It was a marsh, covered by the tide at certain periods, and with a considerable amount of high land behind it, and preliminary work of piling and draining and general marsh reclamation of course had to be performed.

Mr. STEELE. So that the actual construction of ways did not commence until pretty late in the winter?

Mr. DENMAN. I think so. I think the actual construction of ways, of piling, was right in the midst of frost.

Mr. STEELE. You have referred to the difference in climatic conditions between the Pacific coast and the Atlantic coast. Do you recall that that winter in particular was one of the severest known along the Atlantic coast?

Mr. DENMAN. It was. I think administrators had about as great difficulties to overcome as could have been overcome. The railroads as you recall were themselves perilously retarded in operation and could not get materials to the yard. The organized riot that they spoke of was partially organized by nature.

Mr. STEELE. And it led to great difficulty in performance by labor and in getting work done.

Mr. DENMAN. And housing, too.

Mr. STEELE. That applied to all shipbuilding plants along the Delaware River at that time, didn't it?

Mr. DENMAN. It must have.

Mr. STEELE. And of course that interfered very materially with the speed at which ships could be constructed at that point.

Mr. DENMAN. Yes.

Mr. STEELE. You referred this morning to your conference with the British representatives. Were there any other persons present at that conference outside of those you mentioned?

Mr. DENMAN. There was only one conference in which all those persons were present. Afterwards they broke up into subordinate committees, and, say, we dealt with them from time to time. We would have an appointment with Sir Richard at such and such a time and with Mr. Cannap Guthrie, one of their assistants, at another time——

Mr. STEELE (interposing). Were any congressional representatives present at that time?

Mr. DENMAN. No; and a very interesting thing about that paper I presented this morning was that it was prepared and handed me by the State Department without our collaborating in its preparation, although it outlined the activities we were to engage in as conferees.

Mr. STEELE. Well, did you hold conferences with congressional representatives with reference to the policies of the Shipping Board?

Mr. DENMAN. Yes; particularly with the Senator from your State. I presume that I received as much assistance from Senator Knox as from anybody here in the Congress. I had much advice from him on international questions I have spoken of, and there were others. It would be difficult to have an international conference with these

congressional gentlemen and the British commissioners, because we would slide off into technical questions very quickly.

Mr. STEELE. The bell is ringing for a vote in the House, and I have only one question or two in addition. On yesterday you stated that the great difficulty with a merchant marine policy on the part of the Government would be the supplying of shipping brains. What did you do to meet that difficulty?

Mr. DENMAN. I meant the percentage of able shipping men to the whole population. Our competitor's is very much larger. I am very glad you asked me that, because I saw the report in the papers that took a part of my statement but not the whole of it. Our shipping men have ability and brains, but there are not many of them. Commerce on the sea is as important, if not more important, at the delivery end than at its initial end. It is your agent abroad, your house and its connections, that very largely determine your foreign commerce, or should, because the American method has been what the shipping men call f. o. b. ship selling on this side and let the other fellow do the distributing. Now, we have been behind other nations in developing our foreign agencies. One of the instrumentalities of holding trade, to the foreigner and our competitors, is through their ships. Knowledge is gained of the foreign business of the United States by studying manifests and shipping documents on these competition ships, all of which can be gathered together and brought to a central intelligence and given to the merchants of these other nations.

Now, in the years preceding the war we had a few American shipping companies, and had not developed our American foreign agencies. In consequence, our competitor's agents, the administrators in America for foreign lines and houses, constitute the bulk of what I call ship brains in this country. The men who knew the trade and the carriage end of it were largely foreigners. In that personnel we Americans have been lamentably short as compared to our competitors in ocean carriage and ocean commerce. In so far as the stimulation of the number of persons engaged in transportations, of Americans, increases the number of persons that have that capacity we are adding to our national assets in international commerce and international transportation. That is what I had in mind.

Mr. STEELE. That, of course, is a matter of experience and education?

Mr. DENMAN. It must be.

Mr. STEELE. And that is a matter of slow development, isn't it?

Mr. DENMAN. Ordinarily. But Germany, you will recall, adopted an intensive process for developing that. Just as they concentrated on their military affairs, they concentrated on that, and by a system of foreign financing and other help they forged ahead very fast. German competition in the commerce of the world—which they claim was the cause of the war—was a national project; the Government, the great banking syndicates, the shipping syndicates, the system of German cartel, all flowed out of a centralized governmental policy. A man in Germany could start the manufacture of a certain article under government aid in an interior German city and receive governmental cooperation in railway and ship transportation clear up to the financing of the sale in, say,

Buenos Aires. You say it is a process of long growth, but they developed it very rapidly, so rapidly that it disturbed the international balance of trade and, as they say, was the cause of the war.

Mr. STEELE. When you say rapidly, within what time did the Germans develop it?

Mr. DENMAN. I think the period of its greatest development was the last few years prior to the war.

Mr. STEELE. One of the criticisms of the operations of the Shipping Board was that frequently ships with full cargo on the trips abroad returned without any. Is that due to the condition you mention?

Mr. DENMAN. I think in part it is attributable to that. But I understand in some cases ship operators, operating ships for the Government, were men who were operating their own ships and Government ships side by side. Naturally they had their stockholders pressing on them, and there may have been some influence of that kind that caused them to fill the holds of private ships more nearly full than in the case of Government-owned ships. But I think in the main it is our weakness in the foreign fields that causes this condition.

I was speaking of Mr. Schwerin on yesterday. I was familiar with the strain that Mr. Schwerin was under for years in maintaining the Asiatic coast offices of the Pacific Mail Steamship Co. Mr. Schwerin was in bad with Congress; some did not like him here; but so far as the international conflict on the seas was concerned he was one of the strongest men the United States had. He strove with great zeal and great energy to maintain what I call the outposts of our trade, and was in bitter competition there with the Japanese, the English, and the Germans. Rosseter has continued it.

Mr. STEELE. In your judgment, if our marine policy is to be made a success something of that kind must be done?

Mr. DENMAN. Shipping must go hand in hand with business, and the Government must help.

The CHAIRMAN. Just a couple of questions that I think you can answer yes or no, as the bell has rung a second time. Did you receive any compensation from the Government or anybody else for the performance of those extraneous duties which were committed to you?

Mr. DENMAN. Oh, no, sir.

The CHAIRMAN. Those various conferences which you held with shipbuilders and ship operators at that time, during your administration, were they not practically unanimous in opposition to the wooden-ship construction program that you were undertaking?

Mr. DENMAN. Oh, no. On the contrary, Gen. Goethals and my wooden-ship program was very highly and very generally indorsed. For instance, Mr. Corey, the steel manufacturer, wrote a letter——

The CHAIRMAN (interposing). No; by those ship builders and operators that made up the advisory board with whom you consulted and you spoke of on yesterday; were they not practically unanimous against the wooden-ship program?

Mr. DENMAN. Practically every man who knew anything about the use——

The CHAIRMAN (interposing). No; I mean this——

Mr. DENMAN (continuing). I must include them in my answer, Mr. Chairman——was opposed to building wooden ships except for the

Review

emergency. Now, as to the men you are speaking of, the question came up to them in the year 1918, after the big push back——

The CHAIRMAN (interposing). No; I am asking you this: You said you had an advisory committee that you consulted with while you were chairman of the board, and that you discussed various questions with them. I am inquiring if those men on that committee were not advising you against the building of wooden ships or of undertaking it?

Mr. DENMAN. Yes, all; except for the emergency.

The CHAIRMAN. They were in favor of it for the emergency, you mean?

Mr. DENMAN. Some were, and some not even that. Some of them did not know anything about wooden ships. I probably knew more about pine and fir wooden-ship construction than any of them. The ship control committee of which Mr. Franklin was chairman advised Mr. Schwab to continue the project in April, 1918.

The CHAIRMAN. In your organization, either in the Shipping Board or the Fleet Corporation, outside of Gen. Goethals, did you have any man, in any subordinate position, who had had practical experience in either wood or steel shipbuilding?

Mr. DENMAN. Well, on the Pacific coast I procured the appointment of Capt. Pillsbury, who was familiar with both types of construction. The fact is I may say for my own personnel, those men stuck throughout the war.

The CHAIRMAN. Anybody else?

Mr. DENMAN. Who he chose as his wooden-ship administrators I do not recall.

The CHAIRMAN. No; I mean anybody you selected. Did you select any practical man outside of Capt. Pillsbury?

Mr. DENMAN. I asked Mr. Hough to come from the coast.

The CHAIRMAN. Did you select Commander Ferris?

Mr. DENMAN. No; I had nothing to do with that. He was a steel man.

The CHAIRMAN. Well, I am talking about steel or wood ships. Did you personally select for any subordinate position, in the Fleet Corporation or in the Shipping Board, any person who had had practical experience in the construction of wood or steel ships, outside of Capt. Pillsbury?

Mr. DENMAN. Capt. Pillsbury had charge of the Pacific coast work.

The CHAIRMAN. Anybody else?

Mr. DENMAN. Nobody else was selected by me.

The CHAIRMAN. I think that is all, Mr. Denman. And the committee will adjourn and resume after the Christmas holidays, at which time we expect to call some of the present officials of the Shipping Board.

(Thereupon, at 12 o'clock and 20 minutes p. m., the committee adjourned to meet on the call of the chairman after the holidays.)

